

Commonwealth of Massachusetts



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

*Martin J. Benison, CGFM
Comptroller of the Commonwealth*

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Our cover and portraits on the introductory section are from the collection of the Worcester Art Museum, which opened in 1898. The institution, founded by Stephen Salisbury III “for the benefit of all the people,” today houses more than 35,000 works of art representing more than 50 centuries of creative spirit.

The internationally renowned collection is housed in thirty-five galleries and includes the largest and finest group of Antiochian mosaics in America, on display in the Renaissance Court. The Museum’s twelfth-century Romanesque Chapter House - one of the first medieval structures transported to the New World - adjoins galleries which features paintings, frescoes and liturgical objects from the European middle ages.

In 1898 the Museum opened the first New England gallery solely devoted to the permanent display of American portrait miniatures. The Museum was among the first to exhibit and collect photographs as fine art. The photography collection has grown to over 2,000 images that span the entire history of the medium.



Childe Hassam was born in Dorchester and cherished his New England heritage. Hassam was a member of the Boston Art Club and one of the founding members of a group of American artists known as the “*Ten American Painters*”, also known as The Ten.

He is quoted as saying “*I was very fortunate, I think, in being brought up in Boston, which was the center of culture. I lived on Columbus Ave. in Boston. I was always interested in the movements of humanity in the street, and I painted my first picture from my window.*”

*Childe Hassam, American, 1859 - 1935, Columbus Avenue, Rainy Day, oil on canvas
Bequest of Mrs. Charlotte E. W. Buffington, 1935-36
Worcester Art Museum, Worcester, Massachusetts*

Information sources:

*Historical Atlas of Massachusetts, Edited by Richard W. Wilke and Jack Tager
The University of Massachusetts Press, Amherst, Massachusetts, 1991*

*Secretary of State, Commonwealth of Massachusetts
Massachusetts Studies Project, University of Massachusetts*

*Story excerpts from Boston Firsts
Linda Morgenroth
Beacon Press, Boston, Massachusetts, 2006*

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This painting is one of the few extant portraits from the 17th century to depict a New England merchant in fashionable non-military dress. Born in England in 1635, John Freake arrived in Boston by 1658, where he soon became established as a successful merchant and attorney who also served the town as a constable and juryman. Thirteen years after he married Elizabeth Clarke, John Freake was killed in an explosion aboard ship in Boston Harbor in May 1675.

*John Freake
About 1671-1674, unknown artist
American 17th Century, Oil on canvas
Museum purchase, Sarah C. Garver Fund, 1963.135
Worcester Art Museum
Worcester, Massachusetts*

America is known for its innovations and entrepreneurship. Every state and commonwealth in the nation can take great pride in their inventions, legacies of firsts and other attributes that make them unique.

Massachusetts became a colony in 1692 and on February 6th, 1788 became the sixth state to ratify the United States Constitution. Many American traditions and institutions were founded first in Massachusetts.

For the reader's entertainment, we have included some of these in this year's report.

Introductory Section

Letter of Transmittal

Acknowledgement

Commonwealth Organizational Structure

Constitutional Officers

Advisory Board to the Comptroller

Certificate of Achievement

The most famous of all 17th century American portraits, this painting reflects the adaptation by a colonial artist of the decorative linear mannerisms of Elizabethan portraiture some seventy-five years after the style had waned in England. Born May 22, 1642, the daughter of a merchant, Elizabeth Clarke married the successful merchant and attorney John Freake in 1661. They had eight children between 1662 and 1674.



*Mrs. Elizabeth Freake and Baby Mary
About 1671-1674, unknown artist,
American 17th Century, Oil on Canvas
Gift of Mr. and Mrs. Albert W. Rice, 1963.134
Worcester Art Museum
Worcester, Massachusetts*



“Mrs. Gardner in Venice”, Andres Zorn, 1894

Isabella Stewart Gardner and Fenway Court

She is celebrated as the first American to build a collection of old masters, the first to own a Matisse, the first to own a Raphael, the first to build and curate a private, personal art museum – not to mention the one, the only, to build a Venetian palace in Boston. It could also be said that she is the first developer to risk large-scale construction in the Fenway, which at the turn of the century was newly filled land. She created a community for art and artists in Boston, and was a kind of one-woman anti-defamation league, associating easily and graciously with gays, Jews, blacks, foreigners, and members of all social classes. She was drawn by intelligence, insightfulness, erudition, charm, talent, poise and wit, and very much by male beauty, in marble and in flesh. These were her inspirations for creating an international network and cultural society, and collection. Her Venetian palace, Fenway Court, is today the Isabella Stewart Gardner Museum.

By visiting artists in their studios, inviting them to her home, encouraging them, and introducing them to each other and to her society friends, she made “cold roast Boston” hospitable to art. She was the city’s cultural ambassador, in the vanguard of those who would turn Puritan-Victorian-provincial Boston into what civic leaders today call a world-class city.

Gardner assembled a world-class collection-bringing Italian art and architecture to America by designing a particular building for particular art – during a time in nineteenth-century Boston that prescribed for widows a retreat into needlecraft. She was the first American impresario of the arts, as only someone with her combination of worldly and innate qualities could have been, and among the first to practice in the new fields of landscape architecture and interior design.

The Isabella Stewart Gardner Museum at Fenway Court, which officially opened in 1903 – in a gala New Year’s Night bash – is today a one-of-a-kind pleasure palace of painting, sculpture, and decorative arts, and also a visual, sensual ode to the joys of created atmosphere. The palace (sedate in exterior, lush within) contains a formal courtyard garden (with seasonal plantings in ceramic urns and pots) and a small, perfect universe of light-diffused rooms decorated with and exhibiting furniture and art. Today, as in Gardner’s lifetime, concerts and theater pieces are staged in a salon.



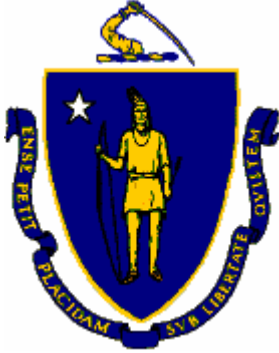
Interior courtyard at the Isabella Stewart Gardner Museum, courtesy of the Isabella Stewart Gardner Museum



Courtesy of Jacobs Pillow

Some firsts in the Arts and Culture:

Oldest dance festival, Jacobs Pillow, Beckett	1933
Music society, Handel and Hayden Society	1815
Independent conservatory, New England Conservatory	1867
Continuously operating museum, Peabody Essex	1799
Vaudeville theater, Gaiety Museum	1883
Isabelle Stewart Gardner and Fenway Court, Boston	1903
Horticultural society, Massachusetts Horticultural Society, Boston	1827
First major American composer (William Billings) ...	1746-1800



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December 22, 2006

*To the Citizens of the Commonwealth of Massachusetts,
Governor Mitt Romney, Lieutenant Governor Kerry Healey,
and Honorable Members of the General Court*

I am pleased to transmit the Commonwealth's fiscal 2006 (FY06) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The report is the primary means of reporting the Commonwealth's financial activities. The objective of this report is to provide a clearer picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes as "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results of operating on that basis from FY06 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements on pages 44 to 48 present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the statutory basis financial statements published in October.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting.

All fixed assets, including road and bridge infrastructure, are added to the statements as are all long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a “net assets format.” This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth’s government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. This **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains a Management’s Discussion and Analysis (MD&A) section, and the Commonwealth’s Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The Commonwealth’s MD&A can be found immediately following the independent auditors’ report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

PROFILE OF THE COMMONWEALTH

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, warehousing and public utilities sectors. The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted. It is the oldest written Constitution now in use in the world. It specified three branches of Government: Executive, Legislative, and Judicial. “The Great and General Court,” elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. The Massachusetts Senate is the second oldest democratic deliberative body in the world.

The table below reconciles the fund balances on three basis of accounting, the statutory basis presented in separately issued financial statement this past October, the fund basis, and entity wide basis statements, included in this report.

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Assets
(Amounts in millions)

Governmental Funds - Statutory Basis, June 30, 2006:	
Budgeted Fund Balance.....	\$ 3,208.1
Non Budgeted Special Revenue Fund Balance.....	1,852.9
Capital Projects Fund Balance.....	<u>(208.8)</u>
Governmental Fund Balance - Statutory Basis, June 30, 2006.....	\$ 4,852.2
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes.....	343.9
CA/T Owner Controlled Insurance Program Net Assets.....	<u>114.4</u>
Adjusted Statutory Governmental Fund Balance.....	5,310.5
Short term accruals, net of allowances and deferrals for increases /(decreases):	
Taxes.....	\$ 1,428.9
Medicaid.....	(261.7)
Tobacco Settlement Agreement receivable.....	124.7
Compensated absences.....	(5.2)
Contract Assistance due to Component Units.....	(233.7)
Other short term accruals:	
Uncompensated care liability.....	(155.9)
Claims, judgements and other risks.....	(50.8)
Workers' compensation and group insurance.....	(110.4)
Other accruals, net.....	<u>(90.8)</u>
Net increase to governmental fund balances.....	<u>645.1</u>
Massachusetts School Building Authority fund balance.....	<u>1,307.6</u>
Total changes to governmental funds.....	<u>1,952.7</u>
Governmental fund balance (fund perspective).....	\$ 7,263.2
Plus: Fixed assets including infrastructure, net of accumulated depreciation.....	22,497.2
Deferred revenue, net of other eliminations.....	581.5
Long term accruals:	
Pension cumulative over / underfunding.....	(191.5)
Massachusetts School Building Authority debt and school construction payables.....	(8,699.0)
Assets to be transferred related to the Central Artery / Tunnel project	(11,691.5)
Long term debt.....	(18,461.4)
Other Long term liabilities.....	<u>(1,595.9)</u>
Total governmental net assets (entity wide perspective).....	\$ <u>(10,297.4)</u>

REPORTING ENTITY

The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, the financial statements include 34 independent public authorities. These entities, along with the State Employees' and Teachers' Retirement systems are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The Commonwealth Health Insurance Connector and the Massachusetts Life Sciences Center are new for FY06. The Massachusetts School Building Authority commenced full operations this year and its results have been blended into the Commonwealth's operations. Two small authorities, the Massachusetts International Trade Council and the Pioneer Valley Regional Transit Authority have prior year results included, as they did not deliver audited financial statements for FY06.

ECONOMIC CONDITION

For the first time since June of 1995, during FY06, the Commonwealth's unemployment rate exceeded the United States as a whole. The Commonwealth's rate lagged from 0.2% to 0.5% during the spring and summer of 2006. Though in October of 2006, the Commonwealth's rate of 4.6% was 0.2% less than it was a year earlier. The Commonwealth continues to contain a large employment base of education, health and human services positions that stabilize the economy. Per capita net income remains at least 20% ahead of the national average. However, concerns are long held in the Commonwealth about affordable housing costs. Further economic data is found in the statistical section to this report.

INDEPENDENT AUDIT

The Commonwealth's independent auditors, Deloitte & Touche, LLP, together with subcontractors and assistance by the Office of the State Auditor (OSA) have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2006. OSA also plays a significant role in the audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133. The independent auditor's report is presented in the Financial Section.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more

complete discussion of this work can be found in the State Auditor's semi-annual report available on their web site: <http://www.mass.gov/sao>.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

In fiscal year 2005 the Office of the Comptroller was focused on stabilizing the new financial management system. This included stabilizing the application and technical platform, but also affirming statewide knowledge and implementation of new business processes to insure they were efficient but also maintained adequate accountability. In fiscal year 2006 the focus was redirected to extracting value from IT investments

The Commonwealth could not have implemented the updated MMARS system as smoothly or with as much success from the start without the involvement and support of all departments. Six years ago the Comptroller initiated the Chief Fiscal Officers (CFO) conference to annually bring together CFO's from across the state to evaluate policies, share best practices and develop strategies to move the Commonwealth forward. The CFO conference was built around the concept of PARTNERS which stands for People, Accountability, Responsibility, Trust, Negotiation, Efficiency, Risk assessment and mitigation and Solutions. We have emphasized that systems depend on people who are integral to those systems. This recognizes that fiscal officers of the Commonwealth are being given increased authority and at the same time being held accountable, ensuring a balance of efficiency and integrity of the financial operations of the Commonwealth. We strike this balance between efficiency and integrity of operations through constant risk assessment and effective risk mitigation.

In FY06 with a stable system in place, attention was focused on improving financial efficiency and accountability within the Commonwealth with a focus on maximizing use of the complete capability of the new system. The Comptroller launched a number of parallel initiatives to accomplish these goals:

- *Internal Audit*

Benefiting from efficiencies in the new application, we redeployed existing staff from processing and pre-audit functions to an internal control bureau. Using specialized data analysis tools, the Bureau supplements standard agency reviews with data mining techniques

which filter out low risk transactions, thus allowing the Bureau to target certain risk profiles on a statewide basis

- *Transaction Delegation*

We continue to assess transactions that this office pre-audits based on risk and delegate the approval of those low risk transactions to department CFO's. This reduces the transaction processing cost without significantly increasing the overall transaction risk profile. Of the 2.5 million transactions entered by departments, less than 10% are work-flowed to the Comptroller for pre-audit.

- *Paperless Transactions*

To the extent transaction profiles do not warrant delegation, using MMARS to capture supporting documentation electronically within the actual transaction reduces initial processing costs along with the long term costs of archiving and later retrieving those documents. In the initial pilot 7,000 transactions were converted to completely paperless.

- *Maximizing Prompt Pay discounts*

The Comptroller's office establishes system parameters to automatically schedule payments for issuance based on the cash flow needs of the Commonwealth along with maximizing discounts offered by vendors for prompt payment. In FY06 the Commonwealth realized \$1.2 million in prompt payment discounts. In FY07 we are on track to double that amount. However, discounts can only be taken where they are negotiated. Much work remains to be done. Of more than 22,000 active contracts, less than 5,000 offer prompt payment discount terms.

- *Benchmarking Against Best Practices*

The National Association of State Comptrollers has entered into a national contract to benchmark state operations for efficiency and effectiveness against public and private sector organizations. The contract allows assessments in four areas, finance, human resource and payroll, procurement, and information technology management. The Commonwealth began with the finance benchmark. Appearing in the third quartile, the Commonwealth finance operation performed well against private sector organizations of similar size and complexity and was the highest rated among governments measured. More importantly, the benchmarking identifies high cost areas and areas where we can further improve the efficiency and effectiveness of financial operations. During FY07 the Commonwealth should use this program to analyze Procurements, Human Resources and Payroll, and Information Technology to identify additional opportunities for process improvements.

In FY07 we have outlined ongoing initiatives:

- *Web Applications*

In addition to the financial system, the Comptroller maintains seven interactive web sites serving commonwealth vendors, state employees, and processing internal transactions between this office and state departments. During FY07 we will undertake a major

initiative to update and consolidate these applications and functionality to improve performance.

- *Paperless Remittance Advices*

The Commonwealth has gone to almost 100% electronic funds transfer for employee payments, however the accompanying pay stub is still distributed manually to most employees. The Comptroller provides a secure web site where employees through a pin and password can access their pay stub and prior period information, increasing employee access to information at a significantly reduced cost. In the coming month we will complete an upgrade of this application and roll it out to the entirety of State Government.

- *Payable Audits*

We have engaged an accounts payable audit firm. During FY07, the firm will review all payments from FY05 and FY06, identifying any erroneous payments as well as instances where contract terms such as volume rebates were not paid. The vendor will be compensated based on performance. In addition to the potential cost savings, this will serve as an additional test of controls.

- *E- Receipts*

Finally, the Comptroller's Office in conjunction with Administration and Finance and the Information Technology Division has engaged in a focused effort to increase the number of citizen and business transactions that can be completed over the internet. The obstacle to increasing internet based transactions has been the cost of credit card fees that can escalate dramatically for large payments. As part of this project we are piloting lower cost payment alternatives including electronic checks. Departments are being selected and functionality will be added this winter. Citizens and business have come to expect electronic transactions in their daily lives and the Commonwealth has a responsibility to deliver on that expectation.

In closing, I would like to express my thanks to the many dedicated employees within the Office of the Comptroller. Continuing to carry out our mission and meet the goals that are set meant another successful year. I am proud to have them all on my team as another year of initiatives is now underway.

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth

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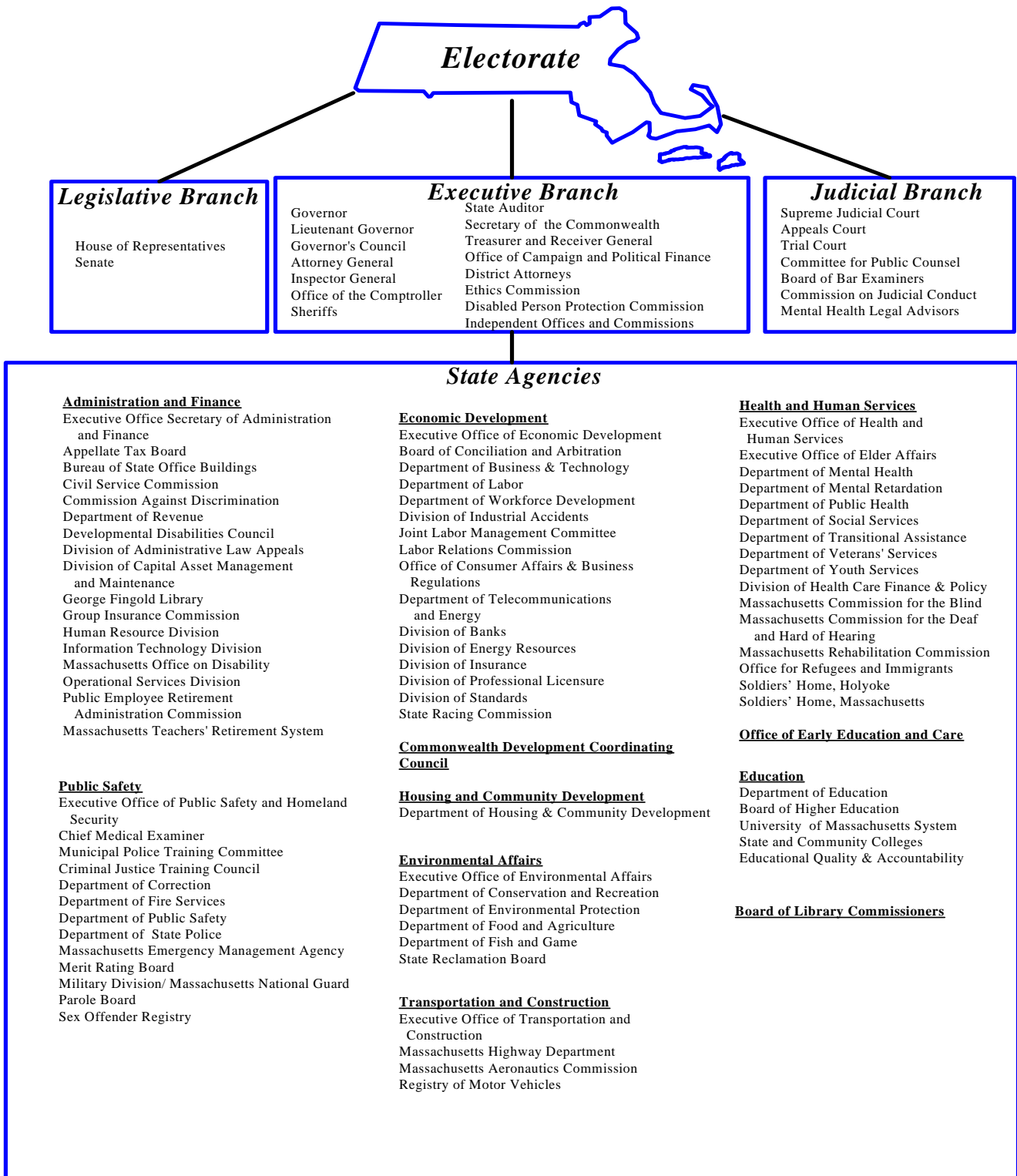
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Vinh Nguyen
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**As of June 30, 2006*

CONSTITUTIONAL OFFICERS

Mitt Romney
Governor

Deval L. Patrick
*Governor – Elect**

Kerry Healey
Lieutenant Governor

Timothy P. Murray
*Lieutenant Governor – Elect**

William F. Galvin
Secretary of State

Thomas F. Reilly
Attorney General

Martha Coakley
*Attorney General – Elect**

Timothy P. Cahill
Treasurer and Receiver-General

A. Joseph DeNucci
Auditor

LEGISLATIVE OFFICERS

Robert E. Travaglini
President of the Senate

Salvatore F. DiMasi
Speaker of the House

JUDICIAL OFFICERS

Margaret H. Marshall
Chief Justice, Supreme Judicial Court

Christopher J. Armstrong
Chief Justice, Appeals Court

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

**Governor, Lieutenant Governor and Attorney General – Elect take office January 4, 2007*

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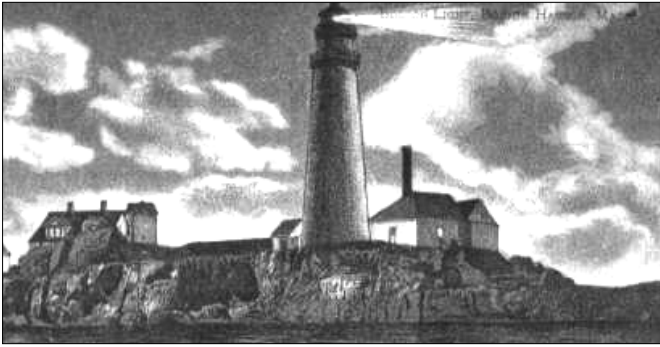
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Boston Light

Boston Light was lit September 14, 1716. Today it is actually a replacement for what the British destroyed. The Brits commandeered it during the Revolutionary War. Withdrawing from Boston, the British set a timed charge in the tower, destroying Boston Light. Its demise was a moral blow to the patriots, and created a navigational hazard. In 1783, the Commonwealth of Massachusetts authorized construction of a new lighthouse, which followed the original plan and incorporated a wall of the old tower.

Lighthouses were critical in pre-radio, pre-radar, pre-global positioning days – always targets for improved technology – and so Boston Light figures prominently in a sea of other Firsts.

The brightness of its light was of paramount importance. In the beginning, whale oil was used to keep sixteen “spider lamps” – lamps with leglike extensions mounted on a circular frame –illuminated. Ventilation was terrible in the lantern room, and great amounts of noxious soot and moisture accumulated, blocking light and sickening the lighthouse keepers. In 1790, keeper Benjamin Lincoln redesigned the lamp and improved the circulation of air. In 1810 – 1811, Winslow Lewis installed the vastly superior Argand lamps.

Later innovations included the installation of lamps, named for the French physicist Augustin-Jean-Fresnel (1788-1827), an optical system that used a thin bull’s-eye lens surrounded by concentric prisms. In 1962, a 1,500-watt, electrically powered bulb was installed in the center of a

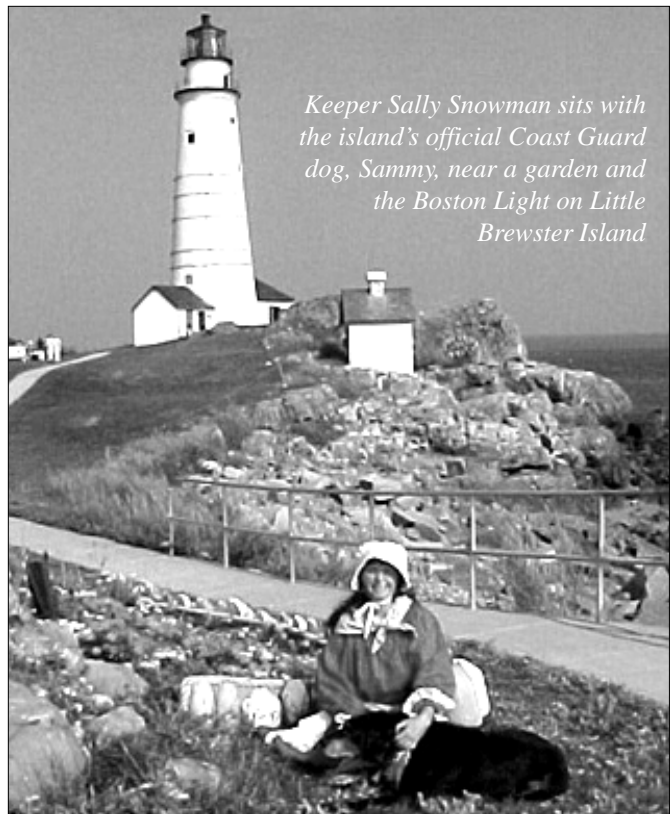


Ship Hannah, Courtesy of Beverly Historical Society and Museum

twelve-sided Fresnel lens. The beam flashes once every ten seconds, throws two million candlepower of light, and is visible for sixteen miles.

Boston Light had the first foghorn, too. In 1719, the first keeper of the lighthouse requested a cannon from the Commonwealth. For the next 132 years, the stalwart cannon, which still stands at the site, boomed in warning as fog descended. In 1851, a bell was substituted for the cannon, retiring the oldest fog signal in the nation.

Today it is the last manned lighthouse in the U. S., and has been “manned” by Sally Snowman, a member of the Coast Guard Auxiliary since 2003. She is the first female lighthouse keeper of the first lighthouse erected in what was to become the United States of America – the first lighthouse in the Western Hemisphere.



Keeper Sally Snowman sits with the island’s official Coast Guard dog, Sammy, near a garden and the Boston Light on Little Brewster Island

Photo courtesy of Sally Snowman

A few Maritime firsts:

Lighthouse, “The Boston Light”	1716
Ferry	1631
Ship of the U.S. Navy, schooner Hannah, Beverly	1775
Canal, built for commerce, Middlesex canal, completed	1803
Nuclear powered surface ship launched, Quincy	1961
Schooner, built by Henry Robinson, launched in Gloucester	1714
Oldest commissioned battleship in the world, U.S.S. Constitution	1798
Patented lifeboat	1807
Yacht (the Jefferson) constructed by Christopher Turner, Salem	1801
Nautical school established on steam sloop, Enterprise	1827

Certificate of Achievement for Excellence in Financial Reporting

Presented to
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For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Ronald J. Khan".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Financial Section

*Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to the Basic Financial Statements
Required Supplementary Information Other Than
Management's Discussion and Analysis
Other Supplementary Information*



*Sargent William Carney
of New Bedford*

*Courtesy of Carl J. Cruz, great, great,
great nephew of Sargent Carney*



“Storming Fort Wagner”, Kurz and Allison, 1890, FRDO 120

Courtesy of National Park Service, Frederick Douglass National Historic Site

young men of the day had not hired a mercenary to take his place, but had himself enlisted in the Civil War and fought for two years in the battles of Virginia and Maryland.

Though the troops drilled mightily and fought valiantly, they did not fare well in South Carolina, where they had been sent to attack Fort Wagner at the entrance to Charlestown Harbor. A terrifying battle ensued, with the Union soldiers being overpowered by the Confederates two to one. Shaw was killed, along with many of his men. In an ugly, unsoldierly act, rebel troops completely stripped his body and tossed him into a pit with his men. It was expected that Colonel Shaw's parents would exhume his body but they refused, leaving his body where it was, the men of the Fifty-fourth Regiment buried together, resting in peace.

Two members of the Regiment were sons of Frederick Douglass. Sargent William Carney of New Bedford was the first African American winner of the Medal of Honor. Carney saved the regiment's flag as he narrowly escaped death during the carnage on the Fort Wagner battlefield. That torn but extant flag, representing the principles men died for, is today stored in the state archives.

Massachusetts Fifty-fourth Regiment

By the time of the Civil War, John Andrew, an abolitionist, was governor of Massachusetts, and black abolitionist Frederick Douglass had become a prominent leader and speaker for the movement. Black men and women, a part of the population since 1638 when they were brought as slaves, had organized, and continued to do so. There were black churches and schools, meeting houses, and an Underground Railway to guide Southern slaves to freedom.

Two years into the Civil War, Governor Andrew petitioned Secretary of War Edwin Stanton to form a regiment of black enlisted men in Boston. Five months later, the Fifty-fourth regiment had formed

Andrew asked Robert Gould Shaw to lead this regiment. Shaw was Harvard educated and unlike many wealthy



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Independent Auditors' Report

Mr. Martin J. Benison, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth"), as of and for the year ended June 30, 2006, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit any of the financial statements of the institutions of higher education or their component units for the year ended June 30, 2006, which represent 78.1% and 57.5%, respectively, of the assets and revenues of the Business-Type Activities within the Statement of Net Assets and Statement of Activities of the Government-wide Financial Statements. We did not audit 98.6% and 98.3% respectively of the total assets and total revenues of the Commonwealth's component units (as presented in the Statement of Net Assets and the Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of the Massachusetts State Lottery Commission for the year ended June 30, 2006, which represent 9.8% and 12.9% of the assets and the revenues, respectively of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and 4.1% and 12.9% of the total assets and total revenues, respectively, of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of the Owner Controlled Insurance Program for the year ended June 30, 2006, which represent 1.0% and .01% of the assets and the revenues, respectively, of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and .4% and .01% of the total assets and total revenues, respectively, of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of either the Pension Reserve Investment Trust or the Massachusetts Municipal Depository Trust for the year ended June 30, 2006, which represent 95.8% and 100% of the total assets and total additions, respectively, of the Fiduciary Fund Types (as presented in the Fiduciary Fund Financial Statements). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included in the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth of Massachusetts' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Except as disclosed in the preceding paragraph, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, for the year ended June 30, 2006 the Commonwealth adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies the definition of restricted net assets and requires governments to determine legal enforceability of restrictions for the purpose of defining the restricted class of net assets in the Statement of Net Assets.

The Management's Discussion and Analysis, on pages 21 through 35, as well as the Budgetary Comparison Schedule – All Major Funds and notes thereto, on pages 140 through 144, are not a required part of the basic financial statements but are supplementary information required by the GASB. Such information is the responsibility of the Commonwealth's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The Combined Balance Sheet – Non-Major Governmental Funds, the Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds, the Combining Balance Sheet – Non-Major Special Revenue Funds, the Combining Statement of Revenues, Expenditures and Changes in Net Assets – Non-Major Special Revenue Funds, the Combining Balance Sheet – Non-Major Capital Projects Funds, and the Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Capital Projects Funds, presented as Other Supplementary Information, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The letter of transmittal and the information provided in the statistical section of this report are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 22, 2006



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Management's Discussion and Analysis

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2006 (FY06). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB) which provides preparers with guidelines on what must be included and excluded from this analysis.

Financial Highlights – Primary Commonwealth Government

Government-Wide Highlights

- ◆ **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of FY06 by over \$6.6 billion, an improvement of nearly \$1.9 billion during the fiscal year. Of the \$6.6 billion amount, “unrestricted net assets” is reported as a negative \$11.6 billion. The primary reason for negative unrestricted net assets is that the Commonwealth is incurring long-term obligations to either construct or assist political subdivisions in constructing assets owned by these political subdivisions. For example, upon completion, the Central Artery / Third Harbor Tunnel (CA/T) will be owned by the Massachusetts Turnpike Authority and the Massachusetts Port Authority. The Commonwealth, however, is paying for the construction of these assets and retains a large amount of related debt. Similarly, the Commonwealth has a liability of \$6.3 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA). This is the first full year of operations for the MSBA, which reports its balances and operations as a “blended” component unit of the Commonwealth. Because of the statutory prohibition of the MSBA from accepting applications for new school construction until July 1, 2007, the payment of \$2.3 billion in grants to municipalities and the continuation of the audits of existing projects resulting in lower costs due from the Commonwealth, this liability to municipalities dropped significantly in FY06. During the fiscal year, significant restricted net asset balances were also set aside for unemployment benefits and debt retirement.
- ◆ **Post-Employment Benefits Other than Pensions** – The Commonwealth will begin to disclose its liability for post-employment benefits other than pensions (OPEB) in its FY08 financial reports. An initial valuation report by an independent actuarial firm calculated this liability for health care and life insurance benefits during FY06. According to the report, if an irrevocable trust is used, the actuarial accrued liability is reduced to approximately \$7.6 billion, with annual contributions commencing at approximately \$703 million and rising to \$1.2 billion after ten years. If an irrevocable trust is not used, the actuarial accrued liability of the Commonwealth for these obligations earned through January 1, 2006 is approximately \$13.3 billion with annual required contributions commencing at approximately \$1.1 billion for the initial year and projected to increase to approximately \$2.8 billion

after ten years.. Both scenarios fully amortize this liability over a 30-year period utilizing an amortization growth rate of 4.5% per year. The Commonwealth has not yet made any decision on when, how or if it will fund this liability.

- ◆ **Changes in Net Assets** – The Commonwealth’s net assets increased by nearly \$1.9 billion in FY06. Net assets of governmental activities increased by them majority of this \$1.9 billion, incurring a \$1.2 billion change during the fiscal year. The increase in net assets is primarily attributable to the aforementioned school construction activity and increased tax revenues. Tax revenues rose by nearly \$1.1 billion above prior year collections. Expenses of governmental activities were over \$34 billion. This reduction from FY05’s \$39 billion is almost entirely due to the aforementioned reduction in accrued school construction grants payable (\$8.7 billion in FY05 reducing to \$6.3 billion in FY06.) However, major categories of expenses rose, led by Medicaid costs. General revenue for the Commonwealth, net of transfers, but including taxes, investment income and tobacco settlement income from governmental activities was nearly \$20.1 billion. Net assets of the business – type activities showed an increase of nearly \$605 million.

Fund Highlights

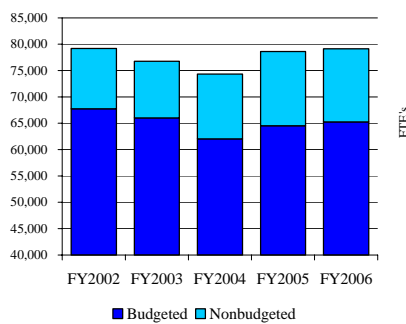
Governmental Funds – Fund Balances – At June 30, 2006, the Commonwealth’s governmental funds reported a combined ending fund balance of nearly \$7.3 billion. Of the \$7.3 billion:

- Nearly \$3.1 billion represents unreserved fund balance. This is an increase of \$2.2 billion from previous years primarily due to an increase in the general fund fund balance of \$854 million. The highway fund maintains a deficit of over \$1.0 billion. The highway fund’s deficit increased by \$243 million from the prior year. The unreserved fund balance of over \$3.1 billion includes the highway fund deficit. Similar to last year, a \$124.6 million has been declared as a receivable in the governmental funds related to anticipated tobacco settlement proceeds in FY07.
- The MSBA’s fund balance of \$1.3 billion is blended into the Commonwealth. Within this fund balance are financing sources related to \$2.5 billion of bond proceeds, \$173 million of related premium and a final allocation of \$435 million in Commonwealth general obligation bonds transferred to the MSBA.
- Governmental reserved fund balances total nearly \$4.1 billion. Included is nearly \$936 million for continuing appropriations, nearly \$2.2 billion for stabilization, nearly \$19 million in bond proceeds reserved for capital projects, most of which are connected with the Boston Convention and Exhibition Center project and nearly \$944 million reserved for retirement of indebtedness, the vast majority of which is held in escrows related to refunding bonds. Over \$114 million is reserved for the CA/T owner controlled insurance program for workers’ compensation and general liability.

Highlights of FY06 – financial operations include:

- Higher than expected tax revenues resulted in year end inflows to the Stabilization Fund of nearly \$354 million, inclusive of \$93 million of current year tax revenues and \$261 million of budgetary surplus on a statutory basis. In addition, over \$52 million of tax revenue was withheld by control measures restricting tax growth in excess of inflation during the year.
- Tobacco settlement proceeds for the year were over \$236 million, all of which were used to support current operations. However, this was less than in previous years. The Commonwealth this year only received 83.5% of the estimated amounts shown in the tobacco manufacturers Master Settlement Agreement between the Commonwealth and Tobacco manufactures. The manufacturers withheld a portion of their expected payment based on calendar year 2003's sales

**Full Time Equivalent Workforce
Including Higher Education
June 2002 – June 2006**



The Commonwealth is pursuing legal action to compel the payment of the additional funds. The tobacco manufacturers have given notice of their intention to seek a reduction in their payment for 2004, due to the Commonwealth in FY07.

- Full time equivalent employee counts grew by approximately 2% this year, but levels are still 3,049 below that of 2001. The graphic to the left details the changes over the last five year.

During FY06, the Commonwealth enacted a sweeping health care reform in “An Act Providing Access to Affordable, Quality, Accountable Health Care.” The goal of the act is to reduce the level of uninsured persons in the Commonwealth. Hallmarks of the bill include:

- An individual mandate requiring all residents 18 years and older to obtain health insurance by July 1, 2007.
- A requirement of all businesses with eleven or more employees to offer health insurance to their full-time employees and make a “fair and reasonable contribution” to their cost or be assessed an annual fee of up to \$295 per employee. In addition, businesses with the same level of full or part time employees must arrange for the purchase of health insurance by all employees, including part time employees on a pre-tax basis through an approved “cafeteria” plan. No employer contribution is required.
- The creation of the Commonwealth Health Insurance Connector authority to increase accessibility to these insurance provisions. The program will also provide premium assistance to eligible citizens to subsidize the purchase of health insurance.
- Funding for reform including \$25 million to establish the authority, nearly \$15 million to restore prevention programs at the Department of Public Health, \$10 million to fund administrative costs to implement reform, \$5 million to the

Massachusetts Technology Park Corporation for a program of computerized physician order entry and other healthcare related initiatives.

The Commonwealth received federal approval for the reform bill with final correcting legislation that was signed in October 2006. The program is expected to be in full operation by FY08.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are composed of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as other supplementary information.

Government-wide Financial Statements

The government-wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Assets*, which present the assets, liabilities and net assets for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. Both of the statements have separate sections for three different categories of the Commonwealth's operations. These activities are *Governmental Activities, Business-Type Activities and Discretely Presented Component Units*. Additional information is presented for college and university foundations in accordance with the implementation of Government Accounting Standards Board (GASB) Statement 39.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements and Component Unit Financial Statements

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures. Fund financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government-wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. The three categories of funds are *Governmental Funds, Proprietary Funds and Fiduciary Funds*. Further discussion on the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but are independent of the core Commonwealth operations. Most operate similar to private-sector businesses.

**Notes to the Financial Statements,
Required Supplementary Information
and Other Supplementary
Information**

The notes provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

The required supplementary information section includes budgetary comparison schedules for the General and Highway Funds, along with a reconciliation comparing the original general appropriation act, and supplemental appropriations compared with actual budgetary spending. Variance columns are also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures is provided. A schedule of pension funding progress is also included in this section.

Other supplementary information is not required, but is included to present combining schedules of minor governmental funds.

**GOVERNMENT-WIDE
FINANCIAL ANALYSIS**

Net Assets

***Major Long – Term Obligations for
Assets of Political Subdivisions
(amounts in thousands)***

Long - term assistance to authorities	\$	343,336
School construction grants payable.....		4,321,749
Outstanding bonds issued to fund the MBTA		416,830
Central Artery / Tunnel Project to be transferred to the Turnpike.....		11,326,475
Central Artery / Tunnel Project to be transferred to Massport.....		<u>365,000</u>
Change in unrestricted net assets due to items unique to the Commonwealth.....	\$	<u>16,773,390</u>

Net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) showed a net deficit of over \$6.6 billion at the end of FY06. The *unrestricted net assets* are negative by over \$11.6 billion. A substantial portion of this deficit is a result of four programs where the Commonwealth decided to fund assets that it does not own by entities other than the Commonwealth. The most significant example is the Central Artery / Tunnel Project (CA/T) costs. Pursuant to the Metropolitan Highway System legislation from 1997, the CA/T will transfer to the Massachusetts Turnpike Authority and to the Massachusetts Port Authority (Massport) upon completion. Portions that have not been transferred are shown as payables on the Statement of Net Assets. While the assets will be with the Turnpike Authority and Massport, (a related organization,) a large portion of the liabilities will remain with the Commonwealth. To date \$14.1 billion of the related assets have entered into service. The non-right of way portion of these assets is depreciating over forty years until transferred.

Another example of this type of arrangement is the MSBA. Prior to FY05, the Commonwealth declared a liability for its share of the construction costs of schools owned and operated by municipalities based on expected discounted cash flows of projects that were funded. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax administered by the MSBA. This allowed a guarantee of a larger portion amount of projects, amounting to \$8.7 billion in FY05, but dropping to \$6.3 billion in FY06, due to the statutory prohibition of the MSBA from accepting applications for new school construction until July 1, 2007. The payments of \$2.3 billion in grants to municipalities, the continuation of the audits of existing projects and the moratorium on new projects resulted in lower costs due from the Commonwealth. The liability to municipalities has dropped significantly in FY06. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement 39, the authority's operations are reported within a governmental fund in this report and on the government-wide financial statements.

There are two other instances where the Commonwealth incurs debt, but has no related assets relate to authorities. The first is for debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as “forward funding,” of the Massachusetts Bay Transportation Authority (MBTA) enacted in FY00. The second is the contractual assistance obligations to other authorities to help subsidize their debt service. The majority of these assistance obligations are for the Massachusetts Water Pollution Abatement Trust, the Route 3 North Transportation Improvements Association and the Massachusetts Development Finance Agency. As of June 30, 2006, the outstanding debt remaining related to the “forward funding” costs of the MBTA was approximately \$417 million, while long-term obligations for contractual assistance to other authorities was nearly \$343.3 million.

Exclusive of fiduciary assets, the Commonwealth’s current cash and investments increased by nearly \$1.2 billion between July 1, 2005 and June 30, 2006. This is directly due to the increased tax and charges for services revenues offset by increases in the Commonwealth’s core expenses for debt service, Medicaid, other health and human services and public safety. Higher education costs also continue to increase. The year was also marked by a continuation of commercial paper borrowing due to the timing of current year receipts and current year major expenses such as the payment of local aid, though at a lower volume than in previous years due to improving tax revenues.

Noncurrent assets increased by nearly \$2.3 billion, exclusive of restricted investments. Over \$24.9 billion of the Commonwealth’s net assets reflect the Commonwealth’s investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investment in the Commonwealth’s infrastructure, including roads, bridges, beaches, dams and other immovable assets to the face of the Commonwealth’s financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth’s investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The bulk of the Commonwealth’s net assets are comprised of its capital assets and long – term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Commonwealth’s current assets were over \$11.5 billion, while its current liabilities were nearly \$8.1 billion. Restricted net assets represent resources that are subject to external constraints. The tables below portray the Commonwealth’s net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business – type activities.

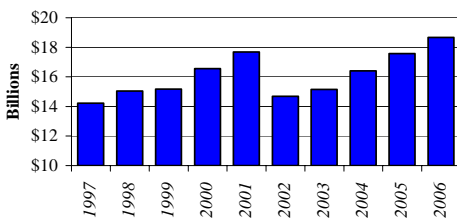
Net Assets as of June 30, 2006 and 2005
(in millions of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Current and other non-capital assets....	\$ 13,351	\$ 10,905	\$ 3,665	\$ 3,022	\$ 17,016	\$ 13,927
Capital assets.....	22,497	22,220	2,425	2,174	24,922	24,394
Total Assets.....	35,848	33,125	6,090	5,196	41,938	38,321
Long term liabilities.....	38,822	37,914	1,690	1,616	40,512	39,530
Other Liabilities.....	7,323	6,755	752	537	8,075	7,292
Total Liabilities.....	46,145	44,669	2,442	2,153	48,587	46,822
Net assets:						
Invested in capital assets, net of related debt.....	101	197	1,284	1,149	1,385	1,346
Restricted*.....	1,759	1,289	1,816	1,331	3,575	2,620
Unrestricted*.....	(12,157)	(13,030)	548	563	(11,609)	(12,467)
Total Net Assets (deficits)	\$ (10,297)	\$ (11,544)	\$ 3,648	\$ 3,043	\$ (6,649)	\$ (8,501)

* Restated change in accounting principles

Changes in Net Assets

**Revenue from Taxation –
GAAP Basis 1997-2006**



The Commonwealth’s net assets increased by nearly \$1.9 billion between FY05 and FY06. Revenues in general increased, led by tax revenue increases of \$1.1 billion. Grants and contributions increased by nearly \$236 million, despite reduced draws for unemployment compensation by nearly \$208 million and only a \$20 million drop in capital grants, due to near completion of the Central Artery / Tunnel Project. The tax revenue increase is attributable in large part to increases of \$530 million in income tax payments, \$261 million in corporate taxation and \$105 million in sales and use tax collections. The Department of Revenue has also implemented sophisticated “data mining” software, which seeks out non-filer data from a multitude of sources. This has increased the amount that has been declared as receivable on the Statement of Net Assets, but also has increased an offsetting allowance for doubtful accounts, as many of these non-filers may be cash-based businesses or are already in financial difficulty.

Total charges for services also decreased by \$321 million due to a nearly \$235 million decrease in Medicaid premiums that are now reflected in an increase in operating grants and contributions of \$215 million related to provisions of the Commonwealth’s health care reform legislation passed during FY06. Related to this drop was a drop in health and human services charges of \$143 million, offset by an increase in operating grants and contributions of \$118 million. Approximately 46% of the Commonwealth’s total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. Restricted net assets increased from FY05 due to higher FY06 appropriations continued to FY07, as well as higher

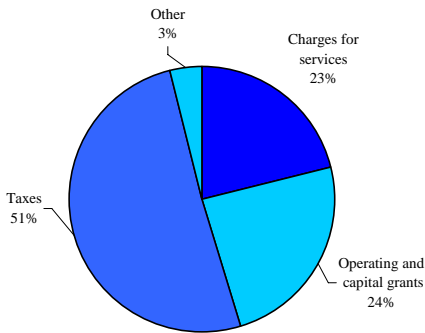
During FY06, the Commonwealth implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which redefined restrictions on net assets. The major effect of this was a reclassification of the Stabilization Fund within the Statement of Net Assets from restricted net assets to unrestricted net assets, improving unrestricted net assets as of June 30, 2005 by approximately \$1.7 billion.

Beyond the aforementioned MSBA related activity, Medicaid spending continued to increase as did other Health and Human Services due to rising medical costs. Other programmatic expenses remained largely unchanged or dropped due to tighter budget controls.

Changes in Net Assets during the Fiscal Years Ended June 30, 2006 and 2005
(in millions of dollars except percentages)

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006 Distribution	June 30, 2005 Distribution	06 to '05 % Change
Revenues									
Program Revenues:									
Charges for services.....	\$ 7,707	\$ 8,040	\$ 3,267	\$ 3,254	\$ 10,974	\$ 11,294	27%	29%	-3%
Operating grants and contributions...	8,348	7,962	684	855	9,032	8,817	22%	22%	2%
Capital grants and contributions.....	482	461	-	-	482	461	1%	1%	4%
General Revenues:									
Taxes.....	18,668	17,580	-	-	18,668	17,580	46%	44%	6%
Other.....	1,422	1,168	247	229	1,669	1,397	4%	4%	19%
Total Revenues.....	36,627	35,211	4,198	4,338	40,825	39,549	100%	100%	3%
Expenses									
Medicaid.....	8,151	7,706	-	-	8,151	7,706	21%	17%	6%
Direct local aid.....	4,682	4,526	-	-	4,682	4,526	12%	10%	3%
Other health and human services.....	5,306	5,197	-	-	5,306	5,197	14%	12%	2%
Lottery.....	3,709	3,692	-	-	3,709	3,692	10%	8%	0%
Higher education.....	-	-	3,277	3,040	3,277	3,040	8%	7%	8%
Primary and secondary education.....	1,942	8,220	-	-	1,942	8,220	5%	19%	-76%
Unemployment compensation.....	-	-	1,338	1,663	1,338	1,663	3%	4%	-20%
Other.....	10,568	10,146	-	-	10,568	10,146	28%	23%	4%
Total Expenses.....	34,358	39,487	4,615	4,703	38,973	44,189	100%	100%	-12%
Excess / (Deficiency)									
before transfers.....	2,269	(4,276)	(417)	(365)	1,852	(4,640)			
Transfers.....	(1,022)	(927)	1,022	927	-	-			
Change in Net assets (deficits).....	1,247	(5,203)	605	562	1,852	(4,642)			
Net assets - beginning	(11,544)	(6,341)	3,043	2,482	(8,501)	(3,860)			
Net assets - ending.....									
Total Net Assets (deficits)	\$ (10,297)	\$ (11,544)	\$ 3,648	\$ 3,043	\$ (6,649)	\$ (8,501)			

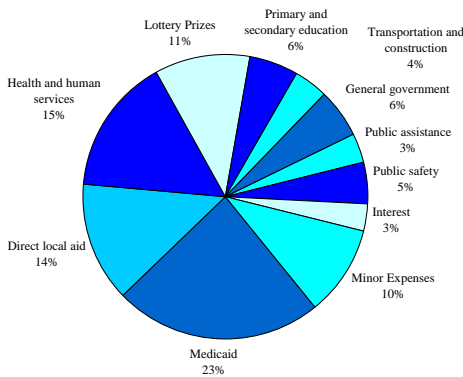
Revenue—Governmental Activities
Fiscal Year Ending June 30, 2006



The largest category of tax revenue is income taxes. Of the nearly \$18.7 billion in tax revenue within governmental activities, \$10.5 billion was from income taxation, \$4.0 billion from sales, \$1.4 billion from corporations, \$669 million from motor fuels and over \$2.1 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies.

The largest capital grants are for transportation, namely grants for highway construction. Finally, Lottery revenues encompass approximately 43% of the Commonwealth’s charges for services. Lottery revenues increased this year by approximately \$27 million, largely due to increases in scratch ticket sales and new ticket sales from the new online game Cash Winfall, which commenced during FY06. Starting in FY06, legislation directs that the ceiling on lottery revenues that are to be distributed to municipalities will be gradually removed by FY09.

Major Expenses—Governmental Activities
Fiscal Year Ending June 30, 2006



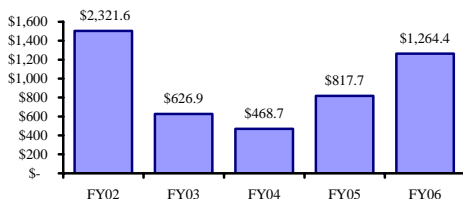
Medicaid represents 24% of all the Commonwealth’s governmental expenses. However, it must be noted that approximately half of the Medicaid expenses are subsidized in the form of federal reimbursements. These subsidies are noted herein in the “charges for services” segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth. According to the Department of Revenue, Division of Local Services, inclusive of regional school aid, nearly 63% of these funds are earmarked for public education or related activities. To the left is a chart that summarizes governmental expenses of the Commonwealth.

Business – type activities are functions that equate to activities of a private enterprise. In the Commonwealth the institutions of higher education are deemed to be business type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business – type activity.

The business-type activities increased the Commonwealth’s net assets by over \$605 million. This primarily resulted from a \$447 million increase in the Commonwealth’s Unemployment Compensation Fund net assets due to the improving economy and despite a 2% decrease in contributions. Net assets of the schools of higher education, increased by nearly \$159 million largely due to increases in net tuition and fee revenue (by over 6%.) Ancillary revenues were flat and federal grants and contributions declined.

Business—Type Activities

Unemployment Compensation Fund
Net Assets
Fiscal Year Ending June 30, 2006
(Amounts in Millions)

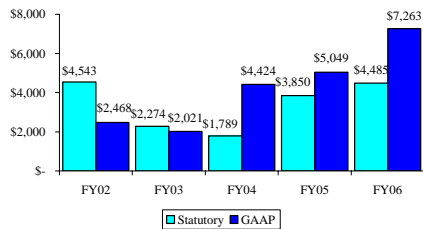


As noted earlier, the Commonwealth uses fund accounting to demonstrate interperiod equity and the extent to which current resources are financing the full cost of services that citizens are receiving.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

Governmental Funds

**Governmental Fund Balance
Statutory vs. GAAP**
(Amounts in Millions)



Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. In FY06, because of the nature of the significant relationship between the Commonwealth and the MSBA, the MSBA's operations and results are presented as a major fund in the governmental funds, even though it is a legally separate authority. MSBA's activity in FY06 added \$569 million in revenues, nearly \$2.4 billion in debt issued and \$3.1 billion in financing sources to the Commonwealth's core governmental activity. MSBA's fund balance added \$1.3 billion to the Commonwealth's governmental fund balance at the end of the year, inclusive of \$1.6 billion of assets and \$253 million of liabilities. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System generated reports from the state accounting system and data warehouses are combined with reports from each of the Commonwealth departments to record governmental fund perspective, departmental accruals. Similar reports are generated to show budgetary control, which is maintained at the appropriation level, not at the fund level. There are six major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective: accruals for the Medicaid program, compensated absences, claims and judgments and tax revenue accruals.

Governmental Fund Operations - GAAP Basis - Fund Perspective
(Amounts in millions)

	FY06	FY05	FY04	FY03	FY02
Beginning fund balances	\$5,048.6	\$4,424.4	\$2,021.0	\$2,467.9	\$ 4,255.4
Restatement due to implementation of GASB 34	-	-	-	-	551.2
Revenues and other financing sources.....	47,189.9	43,532.6	44,371.7	42,798.0	36,476.6
Expenditures and other financing sources.....	44,975.3	42,908.4	41,968.3	43,244.9	38,815.3
Excess / (deficiency).....	2,214.6	624.2	2,403.4	(446.9)	(1,787.5)
Ending fund balances	<u>\$7,263.2</u>	<u>\$5,048.6</u>	<u>\$4,424.4</u>	<u>\$2,021.0</u>	<u>\$ 2,467.9</u>

The increase in revenues and expenditures in FY06 from FY05 is attributable to the aforementioned MSBA activity as well as an increase of \$1.1 billion in governmental tax revenues and \$406 million in federal reimbursements. Total governmental revenues and other financing sources rose 8.4%. Governmental expenditures and other uses rose at a lower pace (about 4.8%) led by a \$907 million increase in Medicaid, or

about 14%. Debt service also continued to rise, up \$369 million from FY05, or about 22%. In addition to the MSBA and the General Fund, the Highway Fund balance decreased by \$243 million due to a continuance of debt service and highway maintenance costs in excess of gas tax revenue pledged to fund those activities. Lottery revenues and expenditures were nearly the same as in FY05. The debt service fund continued to decline in fund balance this year due to large payments from reserves of crossover refunding bonds issued in prior years. The Central Artery Statewide Roads and Bridges fund balance also continued to decline due to the near completion of the Central Artery / Tunnel project. The other minor governmental funds increased in fund balance, due to the creation of new funds connected to health care reform and the closure of the Children's and Seniors' Health Care Assistance Fund, which was in chronic deficit. The fund deficit of nearly \$262 million was closed to the General Fund at the end of the year.

As of the end of fiscal 2006, the Commonwealth's governmental funds reported combined ending fund balances of approximately \$7.3 billion, an increase of over \$2.2 billion from the previous year. However, of the \$7.3 billion, the following amounts are reserved or committed.

Governmental Funds - Reserves of Fund Balances
(Amounts in millions)

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
Continuing appropriations	\$ 936.5	\$ 329.6	\$ 606.9	184%
Transitional escrow	-	304.8	(304.8)	100%
Commonwealth stabilization	2,155.9	1,729.1	426.8	25%
Retirement of indebtedness	944.2	967.7	(23.6)	-2%
Capital projects	19.2	29.0	(9.7)	-34%
Central artery				
Workers Compensation and General liability insurance reserve..	114.4	132.2	(17.8)	-13%
Total reserved balances	4,170.1	3,492.3	677.8	19%
Unreserved:				
General Fund.....	1,861.9	1,730.3	131.6	8%
Special revenue funds.....	1,728.5	329.3	1,399.2	425%
Capital projects funds.....	(497.3)	(503.3)	6.0	-1%
Debt service fund.....	-	-	-	0%
Total unreserved balances	3,093.1	1,556.3	1,536.8	99%
Total fund balances	\$ 7,263.2	\$ 5,048.6	\$ 2,214.6	44%

The change in unreserved nearly doubled to nearly \$3.1 billion, due largely to the healthy excess of revenues over expenditures noted above, offset by the increase in health and human service related costs. Unreserved balances of Special revenue funds went up sharply, mainly due to new funds initiated in connection with the Commonwealth's health care reform legislation.

The amounts reserved for retirement of indebtedness entirely represent escrows for crossover refunding bonds and payments held in escrow for grant anticipation notes to be paid in FY07. The reserve for Central Artery workers' compensation and general liability represents the balance of funds earmarked for claims in an owner controlled insurance

program. The reserve will continue to decline as claims are expected to rise during the windup of the project.

During FY06 the general and highway funds were the primary operating funds of the Commonwealth. At the end of the current fiscal year, the fund balance of the general fund was over \$4.9 billion. Of this amount, nearly \$2.2 billion was apportioned to the Commonwealth's Stabilization Fund. Nearly \$904 million was also reserved for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the general fund, sharply higher than FY05's \$304 million, due to provisions in the final supplemental budget for the year.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY06, the MSBA received \$489 million of dedicated sales tax revenues and \$435 million in Commonwealth general obligation bond proceeds.

Proprietary Funds

Proprietary Funds report activities of the Commonwealth that are structured similar to for profit businesses. Proprietary fund financial statements provide the same type of information as the government – wide financial statements, only in greater detail.

As discussed in the business – type activities above, the business type activities increased the Commonwealth's net assets by over \$605 million.

BUDGETARY HIGHLIGHTS

Differences between the original budget and final budget expenditures amount to nearly \$997 million, exclusive of transfers. As revenues continued to increase this fiscal year, supplemental budget legislation grew. The supplemental budgets are summarized as follows:

- ◆ \$100 million for expansion and improvement projects at the University of Massachusetts and the state and community colleges.
- ◆ An economic stimulus act including \$248 million in spending and transfer for transportation improvements, the City Square development project in the City of Worcester, a nano-manufacturing and bio-manufacturing facility at the University of Massachusetts Lowell campus and transfers to various funds, programs and entities.
- ◆ Appropriations to fund the redevelopment of a site at the former Fort Devens military base to support the building of a new prescription drug manufacturing facility.
- ◆ Funding for new collective bargaining increases.
- ◆ Appropriations to restore the Central Artery surface and develop the Rose Kennedy Greenway, for private indigent counsel compensation, for subsidies to local housing authorities, and for other programs and services.

The original budget was passed on June 30, 2005, just before the start of FY06. Transfers of revenues and expenditures largely related to health care reform, stabilization activity, debt service and taxation resulted in nearly \$167 million, net.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to approximately \$35.0 billion, net of accumulated depreciation of \$10.1 billion, leaving a net book value of \$24.9 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. Of the investment in capital assets noted above though, \$11.1 billion of this amount includes assets that will transfer to the Turnpike Authority and the Massachusetts Port Authority upon completion of the Central Artery / Tunnel project that are in use and depreciating or are right of way. This is in addition to \$1.7 billion already transferred to these Authorities.

The total increase in the Commonwealth's investment in capital assets, net of disposals and changes in accumulated depreciation from 2005 to 2006 was nearly \$529 million, including increases to construction of the CA/T. Additional information on the Commonwealth's capital assets can be found in the notes to the financial statements.

The following table details the capital asset activity for the Commonwealth. Similar to previous charts, FY05 amounts for business-type activities include amounts for the foundations established on behalf of the schools of higher education.

Changes in Capital Assets
(net of depreciation)
(amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land, including Central Artery	\$ 1,192,284	\$ 1,166,762	\$ 64,415	\$ 62,033	\$ 1,256,699	\$ 1,228,795
Historical treasures	-	-	1,194	729	1,194	729
Construction in process	1,689,497	1,311,728	439,382	449,722	2,128,879	1,761,450
Construction in process - Central Artery / Tunnel Project	133,743	350,247	-	-	133,743	350,247
Buildings	2,009,823	1,943,684	1,537,675	1,285,709	3,547,498	3,229,393
Machinery and equipment	217,843	241,029	276,763	270,847	494,606	511,876
Infrastructure, including Central Artery	17,253,978	17,206,074	-	-	17,253,978	17,206,074
Library collections	-	-	105,652	105,021	105,652	105,021
Total	\$ 22,497,168	\$ 22,219,524	\$ 2,425,081	\$ 2,174,061	\$ 24,922,249	\$ 24,393,585

Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

Exclusive of MSBA, the Commonwealth issued over \$1.8 billion in debt this year. An additional \$538 million was sold in the form of refunding bonds, taking advantage of interest rate changes on previously issued debt. MSBA issued one of the largest transactions of any entity in Commonwealth history, selling \$2.5 billion in bonds early in the fiscal year. Subsequent to year end, the Commonwealth issued four series of bonds, including \$486 million of general obligation bonds, nearly \$10 million in college opportunity bonds in August 2006, \$521 million in

refunding bonds in October and an additional \$173 million in refunding and \$339 million in new funding in late November.

The majority of bond sales were for transportation purposes, as well as for the MSBA. During FY06, over \$1 billion in bond principal was repaid, with an additional \$672 million refunded.

Below is a table, which details the Commonwealth's debt by type for the fiscal year compared to the prior fiscal year.

Changes in Long - Term Debt Obligations
(net of related premiums and discounts)
(amounts in thousands)

	Governmental		Business - type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 15,392,887	\$ 14,501,086	\$ -	\$ -	\$ 15,392,887	\$ 14,501,086
Special obligation bonds	1,279,074	1,448,373	-	-	1,279,074	1,448,373
Revenue obligation bonds	-	-	1,519,727	1,421,557	1,519,727	1,421,557
Grant anticipation notes	1,789,445	1,907,340	-	-	1,789,445	1,907,340
Subtotal	18,461,406	17,856,799	1,519,727	1,421,557	19,981,133	19,278,356
Massachusetts School Building Authority..	2,667,414	-	-	-	-	-
Total	\$ 21,128,820	\$ 17,856,799	\$ 1,519,727	\$ 1,421,557	\$ 19,981,133	\$ 19,278,356

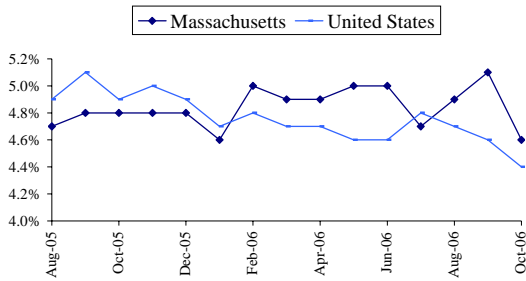
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Massachusetts continues to recover economically. Our Commonwealth is home to many world-renowned institutions of medicine and higher education, both public and private, keeping the economy relatively stable and an incubator for new ideas and growth. Unemployment has dropped due to this stabilization.

The Commonwealth, with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth's economy remains diversified, but its strongest component is its knowledge – based technology and service industries. The Commonwealth is home to 14 S&P 500 companies, among them six *Fortune 500* headquarters.

Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the 2000 US Census, updated in March of 2005, estimated that 36.6% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 28% for the United States as a whole. In the same survey, nearly 88% of residents over age 25 at least have a high school diploma. In primary education, the National Assessment of Education Progress ranks Massachusetts first in 4th and 8th grade mathematics and reading, second in writing and fourth and sixth in science in grades 4 and 8, respectively. This shows that Massachusetts school children are consistently among the best educated in the nation.

**Monthly Unemployment Rate
July 2005 – October 2006**



REQUESTS FOR INFORMATION

Inflation continued to rise though in the past year. The Boston consumer price index rose nearly 2% from September 2005 to September 2006. Fuel and utilities prices continued to outpace inflation, rising 7.5% during the period. Medical care was up 4.8%, followed by food and shelter at 3.7%. Other items were flat or dropped.

Per capita net income rose 5.4% in FY06, though lagging behind the 6.4% rise nationally. However, on a dollar basis, per capita net income is over \$9,800 higher than the national average..

Unemployment continued to stagnate during the year, beginning the year at 4.7% and ending at 5%, but reducing to 4.6% in October. However, most of the year, the federal rate was slightly lower.

This financial report is designed to provide a general overview of the Commonwealth’s finances for all of the Commonwealth’s citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: <http://www.mass.gov/osc/reports/reports.htm>.



*“Ether Day 1846” painting by Warren and Lucia Proserpi, 2001 Courtesy of the Massachusetts General Hospital
Photographed by Samuel Riley*

Ether

The first surgery performed on a patient under the anesthesia of ether happened 150 years ago, at Massachusetts General Hospital (MGH) on October 16, 1846. Ether was not invented in Boston, nor used here for the first time on a patient. By the early nineteenth century, American doctors were using the clear liquid to treat pulmonary disorders. It was also a recreational drug, used at “ether parties” where nineteenth-century medical students generally first made its acquaintance.

The dramatic surgery of 1846 marked the first public demonstration of ether used as anesthesia during a surgical procedure.

Dr. William Morton, a twenty-seven-year-old Massachusetts dentist who had been using ether on his patients, administered vaporized ether to Edward Gilbert Abbott, a twenty-year-old printer with a congenital vascular malformation, a tangling of arteries and veins. Dr. John Collins Warren, the eminent senior surgeon at Massachusetts General Hospital – skeptical of Dr. Morton’s ether and waiting for his patient to jump, or scream – lifted his scalpel and incised Abbott’s neck. The patient did not move. He appeared to be asleep. “Gentleman, this is not humbug,” said Dr. Warren, scalpel poised. Later, the recovered patient – speaking crisply as though for the evening news – remarked, “I did not experience pain at any time, though I knew the operation was proceeding.” Anesthesia was launched.

MGH became a world center for ether anesthesia and continued to develop anesthesia Firsts. During the 1920s, the “anesthetic record” was introduced. Prior to this, doctors and nurses had not recorded changes in patients’ blood pressure, respiration, and pulse under anesthesia. During the 1940s, MGH first applied anesthesia techniques to supporting severely injured trauma and burn patients. In the 1950s, methods were developed to assess and track patients’ pain levels. For decades MGH has led in developing and testing new neuromuscular blocking agents and investigating the molecular biology of the nervous system’s response to pain.

Some Medical firsts

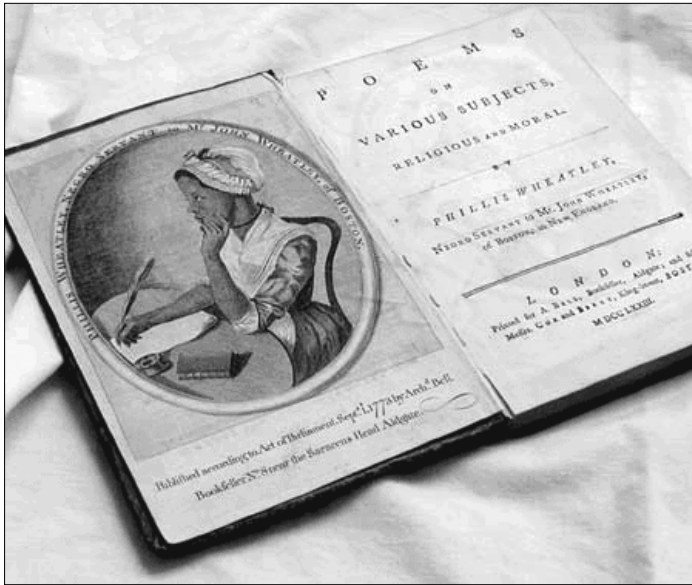
<i>Smallpox inoculation, Dr. Bolyston</i>	<i>1721</i>
<i>Tuberculosis clinic, New England Medical Center</i>	<i>1899</i>
<i>Anesthesia first used, William T. G. Morton, MGH</i>	<i>1846</i>
<i>Treatment of Lead poisoning, MGH</i>	<i>1927</i>
<i>Freezing of blood for storage and later usage, MGH</i>	<i>1964</i>
<i>Kidney transplant, Peter Bent Brigham Hospital</i>	<i>1954</i>
<i>Use of chemotherapy to treat cancer, Sidney Farber</i>	<i>1947</i>
<i>Trained nurse graduates from New England Hospital, now Dimmock Community Health Center</i>	<i>1872</i>
<i>Children’s hospital, Children’s General, Boston</i>	<i>1869</i>
<i>Test tube fertilization, Free Hospital for Women</i>	<i>1944</i>
<i>Implantable artificial heart, Danvers</i>	<i>2001</i>

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Assets

Statement of Activities



Courtesy of the Museum of African American History



Courtesy of the Perkins School for the Blind archives

Selected firsts in Education and Religion:

Religious meeting house, Plymouth	1620
Library, John Harvard donates several hundred books toward the founding of a college in Cambridge	1638
Kindergarten, Training School Elizabeth Palmer Peabody	1860
Woman in America to receive a PhD, Helen Magill White, Boston University	1877
Quakers	1656
Lending library, Franklin Public Library, through a donation of books from Benjamin Franklin	1778
University—Harvard—also oldest corporation, founded in Newtowne (now Cambridge)	1636
Public School—Mather School, Dorchester	1639
Public Secondary School, Boston Latin	1635
Library, Boston Public Library	1646
Professional training program for architects, Robert Ware, MIT	1865
Oldest standing church in the original 13 colonies Medical school, Harvard Medical School	1782
School for the blind, Perkins Institute	1829
Cooking school, Boston, Fanny Farmer	1896

Statement of Net Assets

June 30, 2006

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
Assets				
Current assets:				
Cash and cash equivalents.....	\$ 5,035,690	\$ 275,163	\$ 5,310,853	\$ 392,111
Cash with fiscal agent.....	983,217	-	983,217	-
Short-term investments.....	-	205,415	205,415	696,701
Receivables, net of allowance for uncollectibles:				
Taxes.....	2,711,548	-	2,711,548	-
Federal grants and reimbursements receivable.....	1,082,957	34,276	1,117,233	55,897
Loans.....	-	39,586	39,586	199,687
Other receivables.....	373,249	688,760	1,062,009	204,948
Due from cities and towns.....	34,626	-	34,626	18,631
Due from component units.....	12,462	-	12,462	-
Due from primary government.....	-	-	-	211,888
Due from affiliates.....	-	1,996	1,996	-
Inventory.....	-	-	-	50,940
Other current assets.....	19,093	46,549	65,642	41,568
Total current assets.....	10,252,843	1,291,745	11,544,588	1,872,371
Noncurrent assets:				
Cash and cash equivalents - restricted.....	1,466,239	492,032	1,958,271	61,936
Long-term investments.....	-	853,674	853,674	1,617,061
Restricted investments and annuity contracts.....	1,429,952	12,358	1,442,310	1,508,576
Accounts receivable, net.....	-	35,008	35,008	19,220
Loans receivable, net.....	-	16,387	16,387	2,885,643
Due from primary government.....	-	-	-	343,336
Capital assets, net of accumulated depreciation.....	22,497,168	2,425,081	24,922,249	11,422,715
State retirement system net pension asset.....	202,290	-	202,290	-
Other noncurrent assets.....	-	43,530	43,530	591,871
Other noncurrent assets - restricted.....	-	920,164	920,164	-
Total noncurrent assets.....	25,595,649	4,798,234	30,393,883	18,450,358
Total assets.....	35,848,492	6,089,979	41,938,471	20,322,729
Liabilities				
Current liabilities:				
Accounts payable and other liabilities.....	2,466,246	369,559	2,835,805	355,028
Accrued payroll.....	-	90,559	90,559	15,371
Compensated absences.....	261,943	101,542	363,485	20,333
Accrued interest payable.....	347,689	9,526	357,215	234,296
Tax refunds and abatements payable.....	756,086	17,382	773,468	-
Due to component units.....	211,888	-	211,888	-
Due to primary government.....	-	-	-	12,462
Due to federal government.....	16,007	-	16,007	-
Claims and judgments.....	50,800	-	50,800	-
Deferred revenue.....	-	81,601	81,601	19,617
Deposits and unearned revenue.....	-	22,257	22,257	-
Due to affiliates.....	-	2,224	2,224	-
School construction grants payable.....	1,935,819	-	1,935,819	-
Capital leases.....	14,803	19,062	33,865	22,091
Notes payable.....	25,100	-	25,100	-
Massachusetts School Building Authority Debt.....	56,177	-	56,177	-
Bonds payable.....	1,180,458	38,182	1,218,640	420,654
Total current liabilities.....	7,323,016	751,894	8,074,910	1,099,852

(continued)

Statement of Net Assets

June 30, 2006

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Government Wide Total	
Noncurrent liabilities:				
Compensated absences.....	159,889	52,798	212,687	7,666
Accrued interest payable.....	-	-	-	61,706
Tax refunds and abatements payable.....	98,400	-	98,400	-
Due to federal government - grants.....	-	10,272	10,272	-
Claims and judgments.....	144,400	-	144,400	-
Deferred revenue.....	-	17,041	17,041	111,470
Prizes payable.....	1,429,952	-	1,429,952	-
Capital leases.....	59,749	68,736	128,485	724,428
Bonds payable and other obligations.....	17,280,948	1,481,545	18,762,493	10,936,681
Massachusetts School Building Authority Debt.....	2,611,237	-	2,611,237	-
Due to component units - Central Artery / Tunnel Project.....	11,326,475	-	11,326,475	-
Due to non-component units - Central Artery / Tunnel Project.....	365,000	-	365,000	-
School construction grants payable.....	4,321,749	-	4,321,749	-
Contract assistance payable.....	343,336	-	343,336	-
Teacher's retirement system net pension obligation.....	264,138	-	264,138	-
Boston Teacher's retirement system net pension obligation.....	129,697	-	129,697	-
Other noncurrent liabilities.....	287,891	59,283	347,174	235,229
Total noncurrent liabilities.....	38,822,861	1,689,675	40,512,536	12,077,180
Total liabilities.....	46,145,877	2,441,569	48,587,446	13,177,032
Net assets				
Invested in capital assets, net of related debt.....	101,510	1,283,570	1,385,080	4,702,700
Restricted for:				
Capital projects.....	19,223	-	19,223	4,940
Unemployment benefits.....	-	1,264,391	1,264,391	-
Retirement of indebtedness.....	944,159	-	944,159	236
Central artery workers' compensation and general liability.....	49,959	-	49,959	-
Pension benefits.....	(191,545)	-	(191,545)	-
Other purposes.....	936,495	551,675	1,488,170	1,969,750
Unrestricted.....	(12,157,187)	548,774	(11,608,413)	468,071
Total net assets.....	\$ (10,297,385)	\$ 3,648,410	\$ (6,648,975)	\$ 7,145,697

The notes to the financial statements are an integral part of this statement.

(concluded)

Statement of Activities
Fiscal Year Ended June 30, 2006
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government.....	\$ 1,984,732	\$ 451,753	\$ 29,493	\$ -	\$ (1,503,486)	\$ -	\$ (1,503,486)	\$ -
Judiciary.....	673,930	115,443	1,095	-	(557,392)	-	(557,392)	-
Direct local aid.....	4,682,027	-	-	-	(4,682,027)	-	(4,682,027)	-
Medicaid.....	8,150,576	702,104	4,103,284	-	(3,345,189)	-	(3,345,189)	-
Group health insurance.....	970,150	131,611	-	-	(838,539)	-	(838,539)	-
Public assistance.....	1,129,031	-	678,418	-	(450,613)	-	(450,613)	-
Interest (unallocated).....	985,474	-	-	-	(985,474)	-	(985,474)	-
Pension.....	441,200	-	-	-	(441,200)	-	(441,200)	-
Environmental and recreation.....	415,440	156,074	46,049	-	(213,317)	-	(213,317)	-
Housing and community development.....	664,321	6,245	434,439	-	(223,637)	-	(223,637)	-
Health and human services.....	5,306,321	613,780	1,863,375	30,410	(2,798,756)	-	(2,798,756)	-
Transportation and construction.....	1,266,396	448,349	14,955	451,368	(351,724)	-	(351,724)	-
Education.....	1,942,206	6,346	839,248	-	(1,096,612)	-	(1,096,612)	-
Public safety and homeland security.....	1,650,547	135,846	168,911	-	(1,345,790)	-	(1,345,790)	-
Economic development.....	387,132	213,078	168,555	-	(5,500)	-	(5,500)	-
Lottery.....	3,708,713	4,726,341	-	-	1,017,628	-	1,017,628	-
Total governmental activities.....	34,358,196	7,706,968	8,347,822	481,778	(17,821,627)	-	(17,821,627)	-
Business-Type Activities:								
Unemployment Compensation.....	1,337,565	1,741,101	35,244	-	-	438,780	438,780	-
Higher Education:								
University of Massachusetts.....	2,116,226	1,076,875	453,178	-	-	(586,173)	(586,173)	-
State Colleges.....	568,592	272,918	68,631	-	-	(227,043)	(227,043)	-
Community Colleges.....	592,310	175,418	127,055	-	-	(289,837)	(289,837)	-
Total business-type activities.....	4,614,693	3,266,312	684,108	-	-	(664,273)	(664,273)	-
Total primary government.....	\$ 38,972,889	\$ 10,973,280	\$ 9,031,930	\$ 481,778	(17,821,627)	(664,273)	(18,485,900)	-
Component Units:								
Massachusetts Bay Transportation Authority.....	\$ 1,458,528	\$ 379,960	\$ 848,613	\$ 161,877	-	-	-	(68,078)
Massachusetts Turnpike Authority.....	382,337	306,327	21,386	793	-	-	-	(53,831)
Massachusetts Water Pollution Abatement Trust.....	151,565	3,674	8,507	73,524	-	-	-	(65,860)
Other nonmajor component units.....	506,676	283,145	178,345	80,648	-	-	-	35,462
Total component units.....	\$ 2,499,106	\$ 973,106	\$ 1,056,851	\$ 316,842	-	-	-	(152,307)

(continued)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General revenues:				
Taxes:				
Income	10,543,778	-	10,543,778	-
Sales taxes	4,013,961	-	4,013,961	-
Corporate taxes	1,382,954	-	1,382,954	-
Motor and special fuel taxes	669,373	-	669,373	-
Other taxes	2,058,256	-	2,058,256	-
Miscellaneous:				
Investment earnings	322,990	85,071	408,061	-
Tobacco settlement	236,305	-	236,305	223,646
Contribution from municipalities	51,631	-	51,631	-
Other revenue	785,107	162,110	947,217	-
Gain on sale of fixed assets	26,300	-	26,300	-
Capital contributions	-	-	-	21,335
Transfers	(1,022,320)	1,022,320	-	-
Total general revenues and transfers	19,068,335	1,269,501	20,337,836	244,981
Change in net assets	1,246,707	605,228	1,851,935	92,674
Net assets - beginning	(11,544,092)	3,043,182	(8,500,910)	7,053,023
Net assets - ending	\$ (10,297,385)	\$ 3,648,410	\$ (6,648,975)	\$ 7,145,697

The notes to the financial statements are an integral part of this statement.

(concluded)



1903 World Series, courtesy of the National Baseball Hall of Fame Library, Cooperstown, NY

1903 World Series

Nuf Ced, a brilliant barkeep, lead the Royal Roosters, a group of fans that met in his tavern, the Third Base. They campaigned mightily for the home team and estimates have it that 15 percent of the guys in the stands were Nuf Ced boys.

When the National League organized in 1876, the Boston team joined, winning a dozen pennants over the next quarter-century. However, by 1900, there was major grouching. Boston had not only lost the pennant, but teams were chaffing under the system of syndicated baseball.

Byron Bancroft “Ban” Johnson became president of a small Midwestern group, the Western League, a mere fly in the eye of the National League. His league became competitive in cities such as Milwaukee, Detroit, and Indianapolis, which the National League had ignored. In 1899, he changed his group’s name to the American League and began to invade the turf of the National League, moving into Baltimore and Washington.

He sent Connie Mack, a player turned manager in the American League, to Boston to investigate, and the guys were ready; they hadn’t dubbed themselves Royal for nothing. The Rooters gave Connie Mack a splashy welcome. By the second day, Mack, assisted by the Rooters, had found a place for a ballpark.

American League baseball took off big-time in Boston. The 1903 season yielded two talented, spirited, victorious teams: the Pittsburgh Pirates (National League) and the Boston Americans (American League) . Barney Dreyfuss, owner of the Pirates, issued a “gentleman’s challenge” to Henry Killilea, owner of the Boston Americans, proposing a postseason championship, a World Series on a best-out-of-nine basis. The series would begin in Boston (three games), move to Pittsburgh’s Exposition Park (four games), then back to Boston to complete the series.

The Boston Americans lost the first game, won the second, lost the third, lost the fourth (played in Pittsburgh), won the fifth, sixth, seventh, and in the eighth shut out the Pirates, winning 3-0!

The official World Series reformed baseball and set a new standard. Creating a truce and treaty between the National and American Leagues, it established a governing commission and a set of rules, including an agreement to honor each other’s players’ contracts.

Governmental Fund Financial Statements

The “L” Street Brownies have been a fixture at the Curley Community Center (formally and most commonly known as the “L” Street Bathhouse) in South Boston, Mass. Since 1903, the “brownies” have been swimming every day regardless of weather including their famous “dip” on New Years Day. The salt water swimming has proven to be an elixir to this group, many of whom live to their mid 80’s and 90’s.



L Street Brownies



*Cyclone Rollercoaster, Revere Beach, Massachusetts
Courtesy of RevereBeach.Com*

Sports and Recreation firsts:

<i>Self guided walking tour, Freedom Trial</i>	<i>1954</i>
<i>Black head coach in professional sports, Bill Russell, Boston Celtics</i>	<i>1966</i>
<i>Oldest operating wooden carousel, Flying Horses, Martha’s Vineyard</i>	<i>1884</i>
<i>Public Park, Boston Common</i>	<i>1634</i>
<i>Public beach, Revere Beach, designed by Landscape Architect Charles Eliot</i>	<i>1896</i>
<i>Volleyball (first called mitonette) William Morgan inventor, Holyoke</i>	<i>1895</i>
<i>Oldest Marathon, Boston Marathon, Ashland</i>	<i>1897</i>
<i>Held in Ashland until 1924, then moved to Hopkinton to equal . the Olympic distance.</i>	
<i>Candlepin bowling, Worcester</i>	<i>1880</i>
<i>Basketball, Springfield</i>	<i>1891</i>
<i>World series victory, Boston Pilgrims</i>	<i>1903</i>
<i>Country club, Country Club of Brookline, dedicated to “outdoor pursuits”</i>	<i>1881</i>
<i>Free Public Bath, L Street Bath House</i>	<i>1866</i>
<i>Swimming Pool and School, Francis Leiber, Director, John Quincy Adams enrolled</i>	<i>1827</i>

Balance Sheet
Governmental Funds
June 30, 2006
(Amounts in thousands)

	General	Highway	Lotteries	School Building Assistance	Debt Service	Capital Projects		Total
						Central Artery Statewide Roads and Bridges	Other Governmental Funds	
ASSETS								
Cash and short-term investments.....	\$ 3,110,394	\$ -	\$ 34,771	\$ 711,334	\$ -	\$ -	\$ 1,179,191	\$ 5,035,690
Cash with fiscal agent.....	-	10,687	-	-	258,955	-	713,575	983,217
Restricted investments and annuity contracts.....	-	-	1,429,952	845,488	-	-	620,751	2,896,191
Receivables, net of allowance for uncollectibles:								
Taxes.....	2,557,698	49,232	-	35,559	-	-	69,059	2,711,548
Due from federal government.....	701,171	-	-	-	-	-	381,786	1,082,957
Other receivables.....	138,832	1,496	6,388	4,589	-	-	221,944	373,249
Due from cities and towns.....	12,001	-	-	-	-	-	22,625	34,626
Due from other funds.....	1,586,305	-	-	-	-	111,960	115,196	1,813,461
Due from component units.....	12,462	-	-	-	-	-	-	12,462
Total assets.....	\$ 8,118,863	\$ 61,415	\$ 1,471,111	\$ 1,596,970	\$ 258,955	\$ 111,960	\$ 3,324,127	\$ 14,943,402
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable.....	\$ 1,580,960	\$ 15,183	\$ 32,935	\$ 36,804	\$ -	\$ 7,238	\$ 719,698	\$ 2,392,818
Compensated absences.....	4,082	102	67	-	-	-	934	5,185
Tax refunds and abatements payable.....	756,086	-	-	-	-	-	-	756,086
Due to other funds.....	162,246	1,066,511	-	-	-	-	573,695	1,802,452
Due to component units.....	89,104	13,721	-	-	-	-	109,063	211,888
Due to federal government.....	16,007	-	-	-	-	-	-	16,007
Deferred revenue.....	558,304	82	5,499	-	-	-	17,587	581,472
Claims and judgments.....	30,000	-	-	-	-	-	20,800	50,800
Notes payable.....	-	-	-	-	-	-	25,100	25,100
Prizes payable.....	-	-	1,429,952	-	-	-	-	1,429,952
School construction grants payable.....	-	-	-	252,538	-	-	-	252,538
Other accrued liabilities.....	-	-	-	-	-	-	155,909	155,909
Total liabilities.....	3,196,789	1,095,599	1,468,453	289,342	-	7,238	1,622,786	7,680,208
Fund balances (deficits):								
Reserved for:								
Continuing appropriations.....	904,338	1,413	-	-	-	-	30,744	936,495
Commonwealth stabilization.....	2,155,861	-	-	-	-	-	-	2,155,861
Retirement of indebtedness.....	-	10,687	-	-	258,955	-	674,517	944,159
Capital projects.....	-	-	-	-	-	-	19,223	19,223
Central artery workers' compensation and general liability.....	-	-	-	-	-	-	114,359	114,359
Unreserved:								
General.....	1,861,875	-	-	-	-	-	-	1,861,875
Special revenue.....	-	(1,046,284)	2,658	1,307,628	-	-	1,464,520	1,728,522
Capital projects.....	-	-	-	-	-	104,722	(602,022)	(497,300)
Fund balances (deficits).....	4,922,074	(1,034,184)	2,658	1,307,628	258,955	104,722	1,701,341	7,263,194
Total liabilities and fund balances.....	\$ 8,118,863	\$ 61,415	\$ 1,471,111	\$ 1,596,970	\$ 258,955	\$ 111,960	\$ 3,324,127	\$ 14,943,402

The notes to the financial statements are an integral part of this statement

**Reconciliation of Fund Balances
to the Statement of Net Assets**

June 30, 2006
(Amounts in thousands)

Total fund balances - governmental funds		\$ 7,263,194
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land.....	\$ 728,417	
Construction in process.....	1,689,497	
Depreciable capital assets and infrastructure, net of \$ 7,225,949 of accumulated depreciation.....	8,387,780	
Central Artery / Tunnel Project construction in process.....	133,743	
Central Artery / Tunnel Project untransferred assets in use net of \$ 777,100 accumulated depreciation	11,557,731	
Capital assets, net of accumulated depreciation.....		22,497,168
Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different bases of accounting.....		581,472
Elimination of due from / due to activity between state departments within primary government and business type activities.....		(11,009)
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Pension over / (underfunding) State Retirement Systems net pension obligation.....	(191,545)	
Commonwealth bonded debt.....	(18,461,406)	
Accrued interest on bonds and contract assistance payable.....	(219,648)	
Tax refunds and abatements payable.....	(98,400)	
Massachusetts school building authority other liabilities.....	(8,699,047)	
Contract assistance payable.....	(343,336)	
Amounts to be transferred to component units and related organizations in conjunction with the Central Artery / Tunnel Project.....	(11,691,475)	
Capital leases (including accrued interest).....	(74,552)	
Claims and judgments.....	(144,400)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims.....	(704,401)	
Long - term liabilities (including current portions).....		(40,628,210)
Total net assets - governmental activities		\$ (10,297,385)

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2006
(Amounts in thousands)

	General	Highway	Lotteries	School Building Assistance	Debt Service	Capital Projects Central Artery Statewide Roads and Bridges	Other Governmental Funds	Total
Revenues:								
Taxes.....	\$ 16,735,598	\$ 572,293	\$ 1,228	\$ 491,284	\$ -	\$ -	\$ 954,048	\$ 18,754,451
Assessments.....	128,922	13,083	-	-	-	-	707,520	849,525
Federal grants and reimbursements.....	4,919,297	1,452	-	-	-	-	3,907,764	8,828,513
Departmental.....	1,362,739	386,489	4,726,493	-	-	-	667,003	7,142,724
Miscellaneous.....	298,862	7,572	12,084	79,920	1,805	11,553	815,432	1,227,229
Total revenues.....	23,445,418	980,889	4,739,805	571,204	1,805	11,553	7,051,767	36,802,442
Expenditures:								
Current:								
Legislature.....	54,552	-	-	-	-	-	-	54,552
Judiciary.....	656,246	-	-	-	-	-	3,805	660,051
Inspector General.....	2,763	-	-	-	-	-	589	3,352
Governor and Lieutenant Governor.....	4,645	-	-	-	-	-	-	4,645
Secretary of the Commonwealth.....	37,474	-	-	-	-	-	6,097	43,571
Treasurer and Receiver-General.....	125,166	904	3,705,432	45,134	-	-	926,097	4,802,733
Auditor of the Commonwealth.....	17,493	-	-	-	-	-	623	18,116
Attorney General.....	36,604	431	-	-	-	-	14,851	51,886
Ethics Commission.....	1,433	-	-	-	-	-	-	1,433
District Attorney.....	82,048	3,644	-	-	-	-	8,705	94,397
Office of Campaign and Political Finance.....	1,067	-	-	-	-	-	-	1,067
Sheriff's Departments.....	243,178	450	-	-	-	-	3,620	247,248
Disabled Persons Protection Commission.....	1,786	-	-	-	-	-	-	1,786
Board of Library Commissioners.....	5,289	-	-	-	-	-	2,933	8,222
Comptroller.....	11,442	-	-	-	-	-	2,286	13,728
Administration and finance.....	1,525,031	6,023	-	-	-	-	120,319	1,651,373
Environmental affairs.....	190,259	-	-	-	-	-	91,990	282,249
Housing and community development.....	117,356	-	-	-	-	-	418,514	535,870
Early education and care.....	470,497	-	-	-	-	-	11,286	481,783
Health and human services.....	4,458,139	-	-	-	-	-	2,338,564	6,796,703
Transportation and construction.....	115,171	100,820	-	-	-	-	65,932	281,923
Education.....	1,155,643	-	-	-	-	-	822,843	1,978,486
Massachusetts school building authority.....	-	-	-	2,330,413	-	-	-	2,330,413
Higher education.....	92,634	-	-	-	-	-	12,903	105,537
Public safety and homeland security.....	825,841	206,144	-	-	-	-	132,572	1,164,557
Economic development.....	88,257	50	-	-	-	-	295,946	384,253
Medicaid.....	6,466,156	-	-	-	-	-	752,974	7,219,130
Pension.....	345,934	-	-	-	-	-	-	345,934
Direct local aid.....	4,660,801	-	-	-	-	-	12,911	4,673,712
Capital outlay:								
Local aid.....	-	-	-	-	-	-	8,315	8,315
Capital acquisition and construction.....	-	-	-	-	-	234,394	1,519,339	1,753,733
Debt service.....	-	-	-	60,071	2,028,441	-	-	2,088,512
Total expenditures.....	21,792,905	318,466	3,705,432	2,435,618	2,028,441	234,394	7,574,014	38,089,270
Excess (deficiency) of revenues over (under) expenditures.....	1,652,513	662,424	1,034,373	(1,864,414)	(2,026,636)	(222,841)	(522,247)	(1,286,828)

(continued)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
 Fiscal Year Ended June 30, 2006
 (Amounts in thousands)

	General	Highway	Lotteries	School Building Assistance	Debt Service	Capital Projects Central Artery Statewide Roads and Bridges	Other Governmental Funds	Total
Other financing sources:								
Proceeds of general obligation bonds.....	-	-	-	3,153,437	-	-	1,338,493	4,491,930
Proceeds of refunding bonds.....	-	-	-	-	633,425	-	-	633,425
Proceeds of capital leases.....	29,595	-	-	-	-	-	-	29,595
Transfers in for debt service.....	-	-	-	-	1,915,121	-	-	1,915,121
Operating transfers in.....	1,776,696	595	-	-	6,913	33,161	1,500,031	3,317,396
Total other financing sources.....	1,806,291	595	-	3,153,437	2,555,459	33,161	2,838,524	10,387,467
Other financing uses:								
Payments to refunded bond escrow agent.....	-	-	-	-	633,425	-	-	633,425
Operating Transfers out.....	689,836	98,640	1,034,565	-	596	40,044	1,370,681	3,234,362
Transfers of appropriations.....	1,056,347	-	-	-	-	-	37	1,056,384
Transfers of bond proceeds.....	-	-	-	-	-	-	46,719	46,719
Transfers out for debt service.....	858,432	807,102	-	-	-	-	249,587	1,915,121
Total other financing uses.....	2,604,615	905,742	1,034,565	-	634,021	40,044	1,667,024	6,886,011
Total other financing sources and uses.....	(798,324)	(905,147)	(1,034,565)	3,153,437	1,921,438	(6,883)	1,171,500	3,501,456
Net change in fund balances.....	854,189	(242,723)	(192)	1,289,023	(105,198)	(229,724)	649,253	2,214,628
Fund balances (deficits) at beginning of year.....	4,067,885	(791,461)	2,850	18,605	364,153	334,446	1,052,088	5,048,566
Fund balances (deficits) at end of year.....	\$ 4,922,074	\$ (1,034,184)	\$ 2,658	\$ 1,307,628	\$ 258,955	\$ 104,722	\$ 1,701,341	\$ 7,263,194

The notes to the financial statements are an integral part of this statement.

(concluded)

**Reconciliation of Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

For the fiscal year ended June 30, 2006
(Amounts in thousands)

Net change in fund balances - total governmental funds	\$ 2,214,628
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in process, but excluding reductions and dispositions.....	226,836
Amounts presented in the statement of activities, but not in the change in fund fund balances due to difference in revenue and expense recognition under different bases of accounting.....	8,011
Elimination of due from / due to activity between state departments within government and business-type activities.....	(4,586)
The issuance of long - term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items.....	(604,607)
Massachusetts School Building Authority.....	(301,693)
Net pension underfunding of retirement systems obligations.....	(95,266)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds.....	<u>(196,616)</u>
Change in net assets of governmental activities	\$ 1,246,707

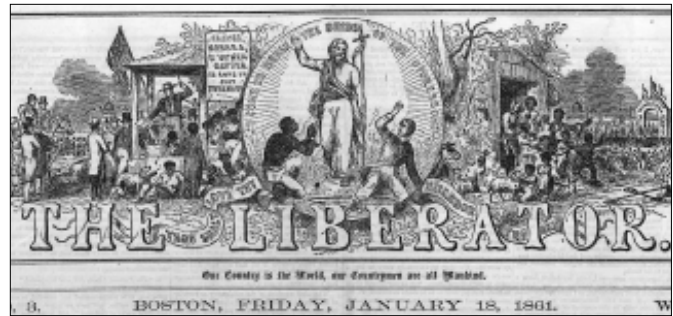
The notes to the financial statements are an integral part of this statement.

Proprietary Fund Financial Statements

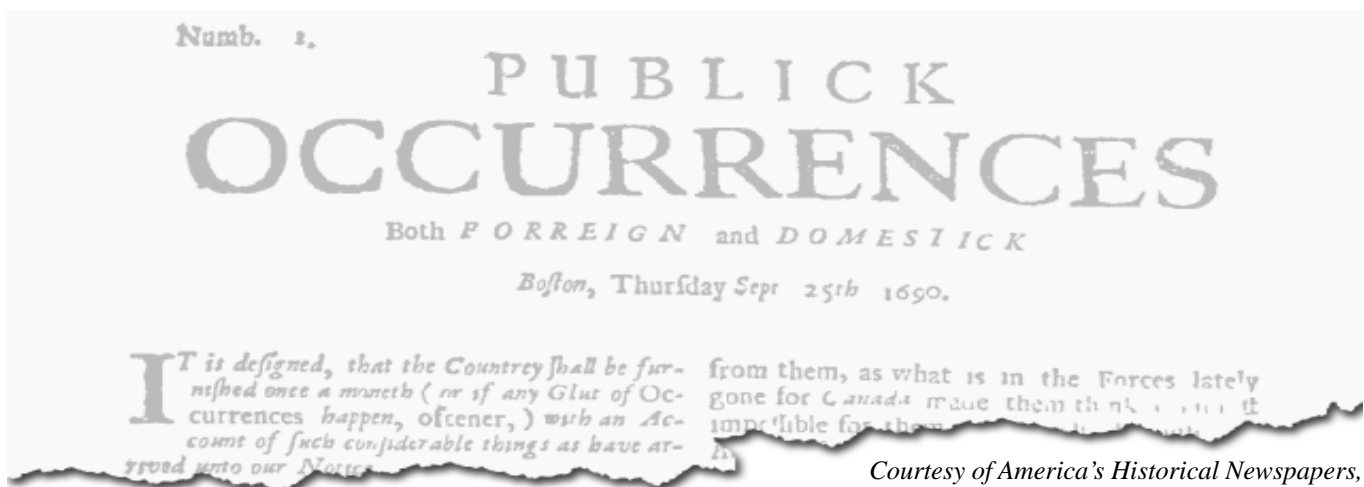
Newspaper

Publick Occurrences, Both Foreign and Domestick answered the colonists' need for news about their own lives and also dished the dirt. It was snapped up like hotcakes, but so enraged the censors that they quashed it after a single coveted edition. But still, *Publick Occurrences* – published September 25, 1690 – was the first American newspaper.

On Thursday, September 25, 1690, *Publick Occurrences*, both Foreign and Domestick, the first and only edition, emerged wet and glorious from his press. A small but enthusiastic crowd gathered outside the shop, waiting to receive and hold the inky, handsome newspaper in outstretched arms, to read of events in their own community, documented, described, set up for debate.



Abolitionist newspaper, “the Liberator”



Courtesy of America's Historical Newspapers, 1690-1922, by the Readex Corporation

It was a booklet, made of two folded sheets printed on three sides, with two columns of neat newsprint on each page, and the last page left blank for readers' notes – successive readers' notes, actually, as it was expected that the newspaper would be passed on.

The Puritan establishment found portions of *Occurrences* unfit to print. Harris's reports of atrocities committed by American Indians aligned with the British were politically incorrect. His descriptions of suicide and murder were lurid. Boston Puritans did not regard this type of reportage as proper reading material, and declared their “high Resentment and Disallowance of said Pamphlet.” Governor Simon Bradstreet forbade the distribution of the newspaper. Chief Justice Samuel Sewall buttressed the governor's injunction by citing the unlicensed status of the newspaper.

Communication and Literature firsts:

Published poet, Anne Bradstreet	1650
Copyright law, Boston	1672
Almanac published, William Pierce, Cambridge	1639
Antiquarian bookstore, Boston	1830
School Book Published, Boston	1689
Post office, Richard Fairbanks tavern, Boston	1639
Abolitionist newspaper, “the Liberator”, William Lloyd Garrison	1831
Regularly Issued Newspaper, The Boston News Letter	1704
American Christmas card, Louis Prang, Printer	1875
First United States postal code (Agawam 01001)	
Novel, William Hill Brown's <i>The Power of Sympathy</i> published in Worcester	1789

Statement of Net Assets

Proprietary Funds

June 30, 2006

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Assets					
Current assets:					
Cash and cash equivalents.....	\$ -	\$ 57,520	\$ 152,968	\$ 64,675	\$ 275,163
Short-term investments	-	137,101	35,016	33,298	205,415
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	-	34,276	-	-	34,276
Loans.....	-	37,954	1,375	257	39,586
Other receivables.....	420,762	229,368	12,699	25,931	688,760
Due from affiliates.....	-	1,995	-	1	1,996
Other current assets.....	-	34,675	6,123	5,751	46,549
Total current assets.....	420,762	532,889	208,181	129,913	1,291,745
Noncurrent assets:					
Cash and cash equivalents - restricted.....	-	462,383	27,658	1,991	492,032
Long-term investments.....	-	602,525	201,424	49,725	853,674
Restricted investments and annuity contracts.....	-	-	6,787	5,571	12,358
Accounts receivable, net.....	-	34,025	937	46	35,008
Loans receivable, net.....	-	-	14,899	1,488	16,387
Capital assets, net of accumulated depreciation.....	-	1,500,610	619,029	305,442	2,425,081
Other noncurrent assets.....	-	27,777	13,695	2,058	43,530
Other noncurrent assets - restricted.....	911,951	-	6,140	2,073	920,164
Total noncurrent assets.....	911,951	2,627,320	890,569	368,394	4,798,234
Total assets.....	1,332,713	3,160,209	1,098,750	498,307	6,089,979
Liabilities					
Current liabilities:					
Accounts payable and other liabilities.....	33,344	301,816	14,825	19,574	369,559
Accrued payroll.....	-	50,754	18,509	21,296	90,559
Compensated absences.....	-	59,910	19,204	22,428	101,542
Accrued interest payable.....	-	9,120	88	318	9,526
Tax refunds and abatements payable.....	17,382	-	-	-	17,382
Deferred revenue.....	17,596	47,082	10,654	6,269	81,601
Student deposits and unearned revenues	-	5,320	7,313	9,624	22,257
Due to affiliates.....	-	1,995	-	229	2,224
Capital leases.....	-	12,238	2,647	4,177	19,062
Bonds, notes payable and other obligations.....	-	25,130	11,419	1,633	38,182
Total current liabilities.....	68,322	513,365	84,659	85,548	751,894
Noncurrent liabilities:					
Compensated absences.....	-	22,230	14,142	16,426	52,798
Due to federal government - grants.....	-	-	8,841	1,431	10,272
Deferred revenue.....	-	12,296	4,745	-	17,041
Capital leases.....	-	54,379	5,612	8,745	68,736
Bonds, notes payable and other obligations.....	-	916,751	532,186	32,608	1,481,545
Other noncurrent liabilities.....	-	45,338	10,163	3,782	59,283
Total noncurrent liabilities.....	-	1,050,994	575,689	62,992	1,689,675
Total liabilities.....	68,322	1,564,359	660,348	148,540	2,441,569
Net assets:					
Invested in capital assets, net of related debt.....	-	805,056	220,398	258,116	1,283,570
Restricted for:					
Unemployment benefits.....	1,264,391	-	-	-	1,264,391
Other purposes.....	-	402,822	99,316	49,537	551,675
Unrestricted.....	-	387,972	118,688	42,114	548,774
Total net assets.....	\$ 1,264,391	\$ 1,595,850	\$ 438,402	\$ 349,767	\$ 3,648,410

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Fiscal Year Ended June 30, 2006

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution.....	\$ 1,677,479	\$ -	\$ -	\$ -	\$ 1,677,479
Net tuition and fees.....	-	406,705	202,399	139,153	748,257
Federal grants and reimbursements.....	35,244	453,178	68,631	127,055	684,108
Miscellaneous.....	63,622	670,170	70,519	36,265	840,576
Total operating revenues.....	1,776,345	1,530,053	341,549	302,473	3,950,420
Operating expenses:					
Unemployment compensation.....	1,337,565	-	-	-	1,337,565
Instruction.....	-	498,951	191,811	219,113	909,875
Research.....	-	316,606	170	134	316,910
Academic support.....	-	111,925	61,981	76,846	250,752
Student services.....	-	79,174	57,578	82,857	219,609
Scholarships and fellowships.....	-	35,015	8,705	29,547	73,267
Public service.....	-	406,541	4,635	7,932	419,108
Operation and maintenance of plant.....	-	159,024	68,753	59,039	286,816
Institutional support.....	-	151,559	73,264	74,657	299,480
Other operating expenses.....	-	47,956	3,549	3,400	54,905
Depreciation.....	-	120,173	34,777	20,689	175,639
Auxiliary operations.....	-	149,963	43,083	16,300	209,346
Total operating expenses.....	1,337,565	2,076,887	548,306	590,514	4,553,272
Operating gain (loss).....	438,780	(546,834)	(206,757)	(288,041)	(602,852)
Non-operating revenues (expenses):					
Other revenues.....	-	106,396	30,622	25,093	162,110
Other expenses.....	-	(39,339)	(20,286)	(1,796)	(61,421)
Investment income.....	7,872	54,852	15,546	6,801	85,071
Total non-operating revenues (expenses).....	7,872	121,909	25,882	30,098	185,760
Income (loss) before contributions and transfers.....	446,652	(424,925)	(180,875)	(257,943)	(417,092)
Transfers out.....	-	513,551	234,364	274,404	1,022,320
Change in net assets.....	446,652	88,626	53,489	16,461	605,228
Total net assets - beginning.....	817,739	1,507,224	384,913	333,306	3,043,182
Total net assets - ending	\$ 1,264,391	\$ 1,595,850	\$ 438,402	\$ 349,767	\$ 3,648,410

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

June 30, 2006

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Cash flows from operating activities:					
Collection of unemployment contributions.....	\$ 1,238,300	\$ -	\$ -	\$ -	\$ 1,238,300
Tuition, residence, dining and other student fees.....	-	407,922	203,769	142,343	754,034
Research grants and contracts.....	-	511,044	68,735	122,897	702,676
Payments to suppliers.....	-	(640,956)	(155,240)	(144,421)	(940,617)
Payments to employees.....	-	(1,017,785)	(293,040)	(331,933)	(1,642,758)
Payments to students.....	-	(30,295)	(6,486)	(23,889)	(60,670)
Payments for unemployment benefits.....	(1,309,794)	-	-	-	(1,309,794)
Collection of loans to students and employees.....	-	(1,098)	2,084	145	1,131
Income from contract services.....	-	343,502	4,009	1,403	348,914
Maintenance costs.....	-	-	(394)	493	99
Auxilliary enterprise charges.....	-	240,251	32,798	19	273,068
Other receipts.....	63,622	(224,358)	16,334	26,937	(117,465)
Net cash provided by (used by) operating activities.....	(7,872)	(411,773)	(127,431)	(206,006)	(753,082)
Cash flows from non-capital financing activities:					
State appropriations.....	-	535,123	201,063	215,119	951,305
Grants and contracts.....	-	31,893	1,004	2,764	35,661
Student organizations agency transactions.....	-	(448)	18	32	(398)
Assignment of perkins loans.....	-	168	(6,045)	449	(5,428)
Net cash provided by non-capital financing activities.....	-	566,736	196,040	218,364	981,140
Cash flows from capital and related financing activities:					
Capital appropriations.....	-	22,736	6,112	2,995	31,843
Purchases of capital assets.....	-	(162,906)	(81,154)	(17,072)	(261,132)
Proceeds from sales of capital assets.....	-	-	104,032	-	104,032
Proceeds from debt issuance.....	-	22,114	7,353	563	30,030
Other capital asset activity.....	-	(4,107)	(6,607)	225	(10,489)
Net purchases / sales of investments held by bond trustee.....	-	(110,604)	-	(17)	(110,621)
Principal paid on capital debt and leases.....	-	(37,779)	(11,580)	(6,224)	(55,583)
Interest paid on capital debt and leases.....	-	(42,024)	(21,084)	(2,014)	(65,122)
Net cash provided by (used in) capital financing activities.....	-	(312,570)	(2,928)	(21,544)	(337,042)
Cash flows from investing activities:					
Proceeds from sales and maturities of investments.....	-	935,489	178,986	40,377	1,154,852
Purchases of investments.....	-	(914,672)	(244,545)	(38,085)	(1,197,302)
Investment earnings.....	7,872	18,239	10,849	3,227	40,187
Net cash provided by (used by) investing activities.....	7,872	39,056	(54,710)	5,519	(2,263)
Net increase (decrease) in cash and cash equivalents.....	-	(118,551)	10,971	(3,667)	(111,247)
Cash and cash equivalents at the beginning of the fiscal year.....	-	638,454	169,655	70,333	878,442
Cash and cash equivalents at the end of the fiscal year.....	\$ -	\$ 519,903	\$ 180,626	\$ 66,666	\$ 767,195
Reconciliation of operating revenues net income (loss) cash provided (used) by operating activities					
Operating loss.....	\$ 438,780	\$ (546,834)	\$ (206,757)	\$ (288,041)	\$ (602,852)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:					
Depreciation expense.....	-	120,157	34,451	20,384	174,992
Fringe benefits paid by the Commonwealth.....	-	-	48,254	58,145	106,399
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets.....	21,837	(117,194)	101	(3,683)	(98,939)
Accounts payable, accrued liabilities and benefits.....	27,771	38,044	(4,750)	5,534	66,599
Student deposits and other unearned and deferred revenues.....	693	6,495	1,177	1,471	9,836
Other noncurrent assets - restricted and liabilities.....	(496,953)	87,559	93	184	(409,117)
Net cash provided by (used by) operating activities.....	\$ (7,872)	\$ (411,773)	\$ (127,431)	\$ (206,006)	\$ (753,082)

Non-cash investing, capital and financing activities:

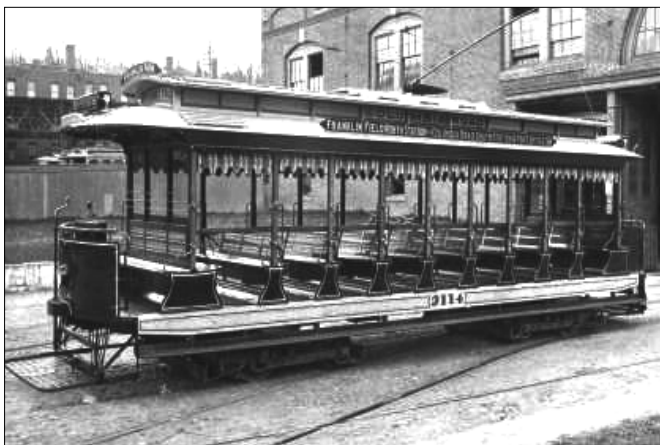
The University System had \$ 1,939,000 of non-cash activities, and the State and Community Colleges had \$ 152,522,000 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Financial Statements



Indian Motorcycle, Courtesy of CelebrateBoston.com



Early Trolley, Courtesy of CelebrateBoston.com

Some transportation firsts:

<i>First divided highway, Carver</i>	<i>1861</i>
<i>Electric Trolley, Lynn</i>	<i>1888</i>
<i>Toll bridge, Newbury</i>	<i>1654</i>
<i>Bicycle Club, Boston</i>	<i>1878</i>
<i>Motorcycle, Indian Motorcycle, Springfield</i>	<i>1901</i>
<i>Railroad Crossing Gate</i>	<i>1867</i>
<i>Auto School</i>	<i>1903</i>
<i>Oldest highway, Route 20, Old Boston Post Road – Boston to New York</i>	
<i>Elevator, Scolley Square Hotel</i>	<i>1837</i>
<i>Subway System</i>	<i>1898</i>
<i>Horse drawn railroad, built to draw granite blocks from Quincy to the Bunker Hill Monument</i>	<i>1826</i>
<i>Successful gasoline-powered automobile – Charles and Frank Duryea, Springfield</i>	<i>1893</i>
<i>Road map for public use- Tulley's Almanac</i>	<i>1698</i>
<i>First pontoon bridge – Collins Pond, Lynn</i>	<i>1804</i>

Combined Statement of Net Assets
Fiduciary Funds
June 30, 2006
(Amounts in thousands)

	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds	Total
ASSETS					
Cash and short-term investments.....	\$ -	\$ -	\$ 5,834	\$ 430,429	\$ 436,263
Assets held in trust for pension benefits:					
Cash and short-term investments.....	1,081,099	63,063	-	-	1,144,162
Investments at fair value.....	39,471,450	2,354,294	-	-	41,825,744
Assets held in trust for pool participants:					
Cash and short-term investments.....	-	2,149,091	-	-	2,149,091
Assets held in trust.....	-	-	-	1,449,654	1,449,654
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	-	-	1,647	1,647
Other receivables.....	408,920	24,992	-	94,145	528,057
Other assets.....	3,283	196	-	-	3,479
Total assets.....	40,964,752	4,591,636	5,834	1,975,875	47,538,097
LIABILITIES					
Accounts payable.....	1,307,748	131,221	-	59,589	1,498,558
Accrued payroll.....	-	176	-	-	176
Due to cities and towns.....	-	-	-	47,095	47,095
Agency liabilities.....	-	-	-	1,869,191	1,869,191
Total liabilities.....	1,307,748	131,397	-	1,975,875	3,415,020
Net assets:					
Restricted for employees' pension benefits.....	39,657,004	-	-	-	39,657,004
Restricted for external investment trust fund participants.....	-	4,460,239	-	-	4,460,239
Restricted for nonexpendable trusts.....	-	-	5,834	-	5,834
Total net assets.....	\$ 39,657,004	\$ 4,460,239	\$ 5,834	\$ -	\$ 44,123,077

The notes to the financial statements are an integral part of this statement.

Combined Statement of Changes in Net Assets
Fiduciary Funds
Fiscal Year Ended June 30, 2006
(Amounts in thousands)

	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Total
Additions:				
Contribution:				
Employer contributions.....	\$ 1,148,096	\$ -	\$ -	\$ 1,148,096
Employee contributions.....	1,661,575	-	-	1,661,575
Proceeds from sale of units.....	-	8,082,293	-	8,082,293
Units issued - reinvestment of distributions.....	-	55,339	-	55,339
Total contributions.....	2,809,671	8,137,632	-	10,947,303
Net investment income :				
Net appreciation in fair value	4,108,021	743,062	-	4,851,083
Interest.....	513,112	107,505	-	620,617
Dividends.....	418,370	24,954	-	443,324
Real estate operating income, net.....	209,068	12,470	-	221,538
Alternative investments.....	25,847	1,542	-	27,389
Other.....	446,867	2,430	-	449,297
Total investment income.....	5,721,285	891,963	-	6,613,248
Less: management fees.....	-	1,890	-	1,890
Less: investment expense.....	156,408	9,329	-	165,737
Net investment income	5,564,877	880,744	-	6,445,621
Total additions.....	8,374,548	9,018,376	-	17,392,924
Deductions:				
Administration.....	594,126	-	-	594,126
Retirement benefits and refunds.....	2,919,464	108,577	-	3,028,041
Cost of units redeemed.....	-	7,943,564	-	7,943,564
Distribution to unit holders.....	-	75,010	-	75,010
Total deductions.....	3,513,590	8,127,151	-	11,640,741
Net increase	4,860,958	891,225	-	5,752,183
Net assets - beginning.....	34,796,046	3,569,014	5,834	38,370,894
Net assets - ending.....	\$ 39,657,004	\$ 4,460,239	\$ 5,834	\$ 44,123,077

The notes to the financial statements are an integral part of this statement.



Louis Prang Christmas card 1875, courtesy of Malcolm Warrington, Scrapalbum.com



Courtesy of the Baker Chocolate Factory, Walter Baker Lofts



Dehydrating carrots, Courtesy of Birdseye Foods and the Birdseye family

Selected firsts in Inventions and Innovations

Frozen food, Clarence Birdseye	1925
Millionaire, Elias Hasket Derby, Salem	
Automatic Bargain Basement	1909
Chocolate chip cookie, Ruth Wakefield	1930
Fried Clams, Essex	1914
Ready Made Suit	1826
World's largest man-made reservoir for drinking water, Quabbin	1930s
Printing press in the united states, Cambridge	1638
Christmas Card	1875
Frozen water trade	1806
Iron works, Saugus	1646
Vulcanized rubber, Charles Goodyear, Woburn	1839
Mint in English America, Boston	1652
Chocolate factory, Walter Baker, Dorchester	1765
Tannery, Lynn	1629
Steam shovel, William Otis	1836
Mutual fund, L. Sherman Adams	1924
Steam heated building, Eastern Hotel	1845
Credit union, established by the Women, Educational and Industrial Union, Boston	1913
Paper mill, Dorchester Lower Mills	1728
Commerical bank established	1686
Sewing machine, Elias Howe	1845
Typewriter, Charles Thurber, Worcester	1840
Safety Razor	1903

Discretely Presented Component Unit Financial Statements



Courtesy of Filene's Basement Inc.

Filene's Automatic Bargain Basement

Edward Albert Filene, grew up an immigrant's son amid Yankees, so he understood the cult of value – a willingness to spend, but prudently, cannily, cleverly – and the quirky self-reliance of New Englanders.

He invented the Automatic Markdown, the Rosetta stone of retailing. in Filene's Basement. "An auction in reverse," he called it. Starting with the dated tag on every piece of merchandise signifying when the item was put out for sale, garments and everything else are reduced 25 percent after twelve days, 50 percent after the next six selling days, and 75 percent after six additional days, a total of 75 percent – this on items generally priced at least half their original selling price. After another six days, a total of thirty selling days in all, the article is given to charity. Over 90 percent of the merchandise is out the door after twelve days, and just one-tenth of 1 percent winds up donated to charity.

"It is economic treason to shop carelessly," he wrote, encouraging customers to shop in a professional manner, to become educated consumers and to buy judiciously. Filene was attentive to his employees as well, instituting many labor reforms, ranging from the credit union to a company union to a retirement-fund stock purchases.

When the British ocean liner Queen Mary was converted into a troop ship, Filene's buyers bought the contents of the entire ship – which contained many fine shops – and sold everything in Boston in under three hours.

While Filene's Basements now exist as separate entities in suburban malls, there is only one Automatic Bargain Basement – two floors of it, a basement and sub-basement, below the original, eight story Daniel Burnham building.

Statement of Net Assets

Component Units

June 30, 2006

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Reclassifications	Total
Assets						
Current assets:						
Cash and cash equivalents.....	\$ 127,783	\$ 5,178	\$ -	\$ 259,150	\$ -	\$ 392,111
Short-term investments.....	116,793	-	307,734	272,174	-	696,701
Receivables, net of allowance for uncollectibles:						
Federal grants and reimbursement receivable.....	9,533	-	15,931	30,433	-	55,897
Loans.....	-	-	171,382	28,305	-	199,687
Other receivables.....	33,545	27,916	84,904	58,583	-	204,948
Due from cities and towns.....	-	-	-	18,631	-	18,631
Due from primary government.....	99,003	1,239	10,060	101,586	-	211,888
Inventory.....	49,918	-	-	1,022	-	50,940
Other current assets.....	25,361	5,169	-	11,038	-	41,568
Total current assets.....	461,936	39,502	590,011	780,922	-	1,872,371
Noncurrent assets:						
Cash and cash equivalents - restricted.....	-	44,133	-	17,803	-	61,936
Long - term investments.....	-	107,110	1,351,305	158,646	-	1,617,061
Restricted investments and annuity contracts.....	883,237	599,520	-	25,819	-	1,508,576
Accounts receivables, net.....	-	12,410	-	6,810	-	19,220
Loans receivables, net.....	-	-	2,567,513	318,130	-	2,885,643
Due from primary government.....	-	-	-	343,336	-	343,336
Capital assets, net of accumulated depreciation.....	7,635,143	2,443,160	-	1,344,412	-	11,422,715
Other noncurrent assets.....	536,647	10,298	6,826	38,100	-	591,871
Total noncurrent assets.....	9,055,027	3,216,631	3,925,644	2,253,056	-	18,450,358
Total assets.....	9,516,963	3,256,133	4,515,655	3,033,978	-	20,322,729
Liabilities						
Current liabilities:						
Accounts payable and other liabilities.....	198,920	35,056	25,937	95,115	-	355,028
Accrued payroll.....	12,547	1,418	-	1,406	-	15,371
Compensated absences.....	16,000	3,393	-	940	-	20,333
Accrued interest payable.....	109,856	59,027	58,993	6,420	-	234,296
Due to primary government.....	-	-	-	12,462	-	12,462
Deferred revenue.....	-	-	-	19,617	-	19,617
Capital leases.....	21,333	-	-	758	-	22,091
Bonds, notes payable and other obligations - current.....	149,415	19,890	122,045	129,304	-	420,654
Total current liabilities.....	508,071	118,784	206,975	266,022	-	1,099,852
Noncurrent liabilities:						
Compensated absences.....	-	7,195	-	471	-	7,666
Accrued interest payable.....	-	59,714	1,992	-	-	61,706
Deferred revenue.....	38,641	45,408	-	27,421	-	111,470
Capital leases.....	724,425	-	-	3	-	724,428
Bonds, notes payable and other obligations.....	5,009,268	2,340,059	2,682,113	905,241	-	10,936,681
Other noncurrent liabilities.....	61,098	62,175	91,672	20,284	-	235,229
Total noncurrent liabilities.....	5,833,432	2,514,551	2,775,777	953,420	-	12,077,180
Total liabilities.....	6,341,503	2,633,335	2,982,752	1,219,442	-	13,177,032
Net Assets						
Invested in capital assets, net of related debt.....	3,170,007	374,364	-	1,158,329	-	4,702,700
Restricted for:						
Debt service.....	-	-	-	236	-	236
Capital projects.....	-	-	-	4,940	-	4,940
Other purposes.....	26,953	157,326	1,390,493	394,978	-	1,969,750
Unrestricted.....	(21,500)	91,108	142,410	256,053	-	468,071
Total net assets.....	\$ 3,175,460	\$ 622,798	\$ 1,532,903	\$ 1,814,536	\$ -	\$ 7,145,697

Statement of Revenues, Expenses and Changes in Net Assets
Component Units
Fiscal Year Ending June 30, 2006
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Reclassifications	Total
Operating revenues and expenses:						
Charges for services.....	\$ 333,096	\$ 274,901	\$ 3,674	\$ 189,634	\$ -	\$ 801,305
Other.....	46,864	31,426	-	93,511	-	171,801
Total operating revenues.....	379,960	306,327	3,674	283,145	-	973,106
Operating expenses:						
Cost of services.....	534,682	152,773	15,306	297,865	499,773	1,500,399
Administration costs.....	436,299	17,791	2,180	100,852	-	557,122
Depreciation.....	288,551	81,575	-	71,459	-	441,585
Total operating expenses.....	1,259,532	252,139	17,486	470,176	499,773	2,499,106
Operating income (loss).....	(879,572)	54,188	(13,812)	(187,031)	(499,773)	(1,526,000)
Nonoperating revenues (expenses):						
Operating grants.....	848,613	21,386	8,507	178,345	-	1,056,851
Interest income.....	11,832	26,117	163,391	22,306	-	223,646
Interest expense.....	(198,996)	(130,198)	(134,079)	(36,500)	499,773	-
Other nonoperating revenue (expense).....	32,458	733	-	(11,856)	-	21,335
Nonoperating revenues (expenses), net.....	693,907	(81,962)	37,819	152,295	499,773	1,301,832
Income (loss) before contributions and operating transfer.....	(185,665)	(27,774)	24,007	(34,736)	-	(224,168)
Capital contributions.....	161,877	793	73,524	80,648	-	316,842
Change in Net Assets.....	(23,788)	(26,981)	97,531	45,912	-	92,674
Net assets - beginning.....	3,199,248	649,779	1,435,372	1,768,624	-	7,053,023
Net assets - ending.....	\$ 3,175,460	\$ 622,798	\$ 1,532,903	\$ 1,814,536	\$ -	\$ 7,145,697

Ice

In early New England, farmers with ponds would dig up thick chunks of ice and pack them in layers of sawdust and straw for storage in cellars and barns, keeping the ice well into summer. Some winters, Fresh Pond would freeze three times, providing three lucrative crops!

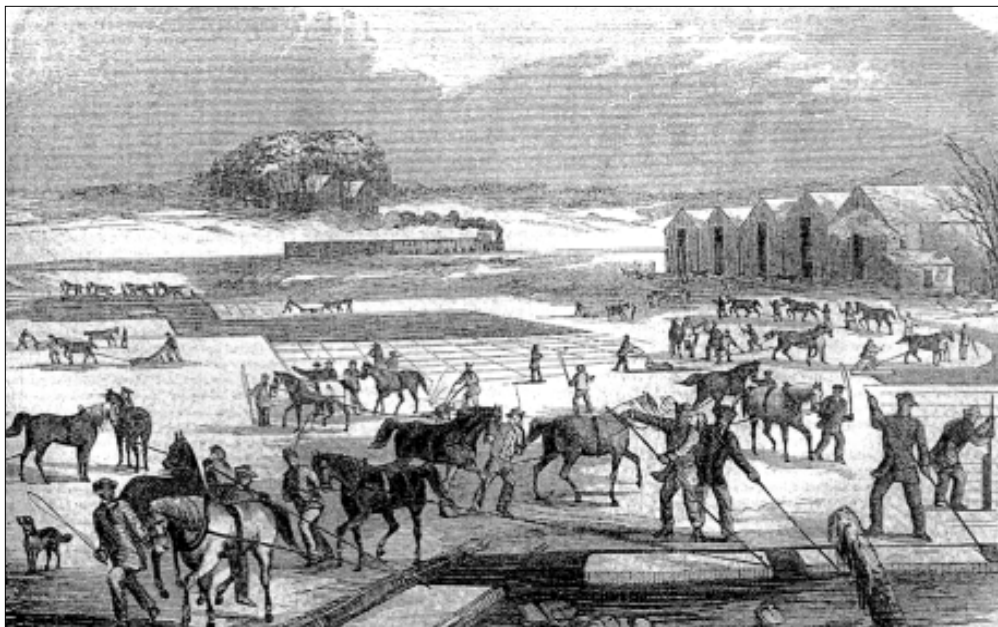
Frederic and William Tudor, two Boston brothers, noticed that Boston and its environs had lots of ice, a surplus of ice, one might say. They came up with the outrageous idea: to transport ice on ships. The idea of shipping ice seemed absurd to most traders of the era. The youngest Tudor, Frederic, not only risked ridicule, he took it on wholesale in his conviction that ice could be packed, preserved, and shipped, and that he could create a market.

It cost nothing to grow, and bodies of water were not owned in Massachusetts; they were public property, their contents up for grabs. In addition, ships routinely showed up with cargo in Boston and left with nothing but ballast. Boston produced no crops worth taking back to their ports of origin. Instead of loading up with worthless ballast, why not ice, Frederic reasoned, especially as most of the ships were coming from hot climates whose populations could be converted to appreciative consumers of ice.

He bought a brig named Favorite, and sent it to Martinique, using up most of his capital. This was never done; one bought space on a ship and paid for freight. Financially, this initial venture was a disaster.

Numerous technical problems had to be solved including the building of aboveground icehouses for commercial storage, educating buyers on point-of-purchase storage, and using horse-drawn saws to score ponds for efficient cutting. Tudor persevered, and eventually developed reliable markets in Charlestown, Savannah, New Orleans, and Havana. As he kept going, he is considered a maverick genius. He amassed a fortune and became known as the Ice King.

He pioneered and built a major business, an industry with its own expertise and technology. The frozen-water trade employed thousands and shaped American recreational tastes. It changed economic and cultural history in overseas colonies.



Ice Harvest at Spy Pond, Arlington, Massachusetts

Gillette Safety Razor

At age seventeen, the personable King Camp Gillette became a traveling salesman and went to work for William Painter at his Baltimore Seal Company. Painter had invented the crimped-edge “crown cap” that most of us grew up with, the trusty metal bottle cap on root beer and cola drinks in the pre-can, pre-juice era. Gillette admired the cleverness and confidence of his boss, and was determined to come up with his own essential everyday object.



King Camp Gillette

In 1895, he held a dull razor in his hand one morning, and realized it was beyond the point of stopping. Gillette had the essential idea of a thin, flexible blade in a clamping holder, exposing two sharp edges of steel, and a handle screwed into position on the clamping plate.

“I have got it; our fortune is made,” Gillette wrote to his wife in Ohio. He rushed out to a hardware store and bought components to make crude a model. It was far from an

immediate success. After several years had elapsed, Gillette met William E. Nickerson, an M.I.T graduate. Nickerson created an effective safety razor prototype. Production began.

By the 1880s, most men in the U.S. were beardless and would have welcomed being clean-shaven every day. But as the process was laborious and dangerous, they shaved just a few times a week, and looked it.

In 1903, fifty-one Gillette Safety Razors and 168 blades found their way to the marketplace. In just five years (1908), blade sales soared to 13,000,000 a year; by 1917, 120,000,000.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America, (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below. Except where noted, all numbers in the footnote tables and other sections of this Comprehensive Annual Financial Report are in thousands.

A. Reporting Entity

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 57 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but 7 of those county governments have been abolished in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 36 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

Component Units and Details of Departments and Entities that are separately audited

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

- **The Massachusetts School Building Authority (MSBA)** is charged with administering and funding a program for grants to cities, towns and regional school districts for school construction and renovation projects. The MSBA enabling statute eliminated the school building assistance program which had been in existence since 1946. The revenues of the MSBA are derived from dedicated sales tax revenues, Commonwealth general obligation debt and MSBA bond proceeds. The expenditures made by MSBA are made on behalf of the Commonwealth. The MSBA's operations and results thereon are reported as a major governmental fund.

- **The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of the PRIT relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary statement of net assets and statement of changes in net assets.
- **The Health Care Security Trust Account (HCST)** is the long - term investment account of the Health Care Security Trust, a minor governmental fund. The Health Care Security Trust was the ultimate recipient of tobacco settlement remittances to the Commonwealth from fiscal year (FY) 99 through FY02. The HCST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HCST. The HCST utilizes certain resources and staff of PRIT or PRIM. Certain Medicaid related revenues are also managed by the HCST before expenditure.
- **The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. Portions of MMDT are reported as an external investment trust within the fiduciary statement of net assets and statement of changes in net assets. MMDT is established by the Treasurer – Receiver General, who serves as trustee.

The following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:

- **The Massachusetts State Lottery Commission**, a division of the Office of the State Treasurer and Receiver – General, operates the Commonwealth’s lottery. The net assets of the Commission and results of operations are presented as part of the Commonwealth’s governmental activities.
- **The Commonwealth of Massachusetts Owner Controlled Worker’s Compensation and General Liability Insurance Program (OCIP)** provides worker’s compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery / Tunnel Project (CA/T). The OCIP is managed by the Massachusetts Highway Department. The net assets of the program and results of operations are presented as part of the Commonwealth’s governmental activities.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth’s business – type activities. These systems include:

- **The University of Massachusetts System** including the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. The University System also includes discretely presented component units, the University of Massachusetts Dartmouth Foundation, Inc and the University of Massachusetts Foundation, Inc.

- **The State and Community College System** including the 9 state and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority (a blended component unit). The following are the community colleges:
 - Berkshire Community College
 - Bunker Hill Community College
 - Bristol Community College
 - Cape Cod Community College
 - Greenfield Community College
 - Holyoke Community College
 - Massasoit Community College
 - Massachusetts Bay Community College
 - Middlesex Community College
 - Mount Wachusett Community College
 - Northern Essex Community College
 - North Shore Community College
 - Quinsigamond Community College
 - Roxbury Community College
 - Springfield Technical Community College

The following are the state colleges:

- Bridgewater State College
- Fitchburg State College
- Framingham State College
- Massachusetts College of Art
- Massachusetts Maritime Academy
- Massachusetts College of Liberal Arts
- Salem State College
- Westfield State College
- Worcester State College

Pursuant to GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*, in addition to the aforementioned University of Massachusetts System, component units are the following state and community college system foundations, all of which are legally separate, tax-exempt, separately audited, component units of the various colleges. These entities resources can only be used by or are for the benefit of the various colleges to which they serve. All are presented within the various college financial statements because of the nature and significance of these entities to those colleges. Complete financial statements may be obtained at their various offices.

Community college component units:

- Berkshire Community College Foundation
- Bristol Community College Foundation
- Bunker Hill Community College Foundation
- Cape Cod Community College Educational Foundation, Inc.
- Greenfield Community College Foundation, Inc.
- Holyoke Community College Foundation
- Massasoit Community College Foundation
- Massachusetts Bay Community College Foundation, Inc.
- Middlesex Community College Foundation, Inc.
- The Mount Wachusett Community College Foundation, Inc.

- The Northern Essex Community College Foundation, Inc.
- North Shore Community College Foundation
- The Quinsigamond Community College Foundation, Inc.
- The Roxbury Community College Foundation, Inc.
- Springfield Technical Community College Foundation

State college component units:

- Bridgewater State College Component Units:
 - The Bridgewater State College Foundation
 - The Bridgewater Alumni Association of Bridgewater State College
- Fitchburg State College Foundation, Inc.
- Framingham State College Foundation, Inc.
- Massachusetts College of Art Foundation, Inc.
- Massachusetts College of Liberal Arts Foundation, Inc.
- The Massachusetts Maritime Academy Foundation, Inc.
- Salem State College Component Units:
 - The Salem State College Foundation, Inc.
 - Salem State College Assistance Corporation
- Westfield State College Foundation, Inc.
- Worcester State Foundation

None of these foundations are considered major component units of the Commonwealth under the definitions put forth under GASB Statement 34, but are blended within their various systems.

Other Discretely Presented Component Units that are Separately Audited – Discrete component units are entities which are legally separate (often called Authorities) are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

Major component units:

- **The Massachusetts Bay Transportation Authority (MBTA)** provides mass transit facilities within the Greater Boston metropolitan area, comprising 175 cities and towns.
- **The Massachusetts Turnpike Authority (MTA)** operates the Massachusetts Turnpike and the Metropolitan Highway System.
- **The Massachusetts Water Pollution Abatement Trust (MWPAT)** provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

Minor component units

- **Massachusetts Convention Center Authority (MCCA)**
- **Massachusetts Development Finance Agency (MassDevelopment)**
- **Massachusetts Technology Park Corporation (MTPC)**
- **Massachusetts Community Development Finance Corporation (MCDFC)**
- **Commonwealth Corporation**

- **Massachusetts International Trade Council, Inc. (MITC) (not audited)**
- **Community Economic Development Assistance Corporation (CEDAC)**
- **Commonwealth Health Insurance Connector**
- **Massachusetts Life Sciences Center**
- **Massachusetts Housing Partnership (MHP)**
- **Route 3 North Transportation Improvements Association (R3N)**
- **Commonwealth Zoological Corporation (Zoo)**
- **Regional Transit Authorities (15 separate entities) including:**
 - Berkshire Regional Transit Authority
 - Brockton Area Transit Authority
 - Cape Ann Transit Authority
 - Cape Cod Regional Transit Authority
 - Franklin Regional Transit Authority
 - Greater Attleboro / Taunton Regional Authority
 - Greenfield-Montague Transportation Area
 - Lowell Regional Transit Authority
 - Martha's Vineyard Transit Authority
 - Merrimack Valley Regional Transit Authority
 - Montachusett Regional Transit Authority
 - Nantucket Regional Transit Authority
 - Pioneer Valley Regional Transit Authority (not audited)
 - Southeastern Regional Transit Authority
 - Worcester Regional Transit Authority

Related Organizations

The following are “related organizations” under GASB Statement No. 14, “*The Financial Reporting Entity*” as amended by Statement 39: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity’s board, but the Commonwealth’s accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

Availability of Financial Statements

The separately audited financial statements of the Commonwealth’s component units and funds may be obtained by directly contacting the various entities. Contact the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

B. Government – Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Government – Wide Financial Statements

The **Statement of Net Assets** presents all of the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net assets** consist of net assets, which do not meet the definition of the two preceding categories.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business – type operations.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

D. Measurement Focus and Basis of Accounting

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Governmental Activities – Government – Wide financial statements - are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds – Fund financial statements - account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year for which they are levied, grants expended or services provided. Revenues from other financing sources are recognized when received. The measurement period for accrual for taxes generally is one year from the statement of net assets date for income,

corporate and other taxes and within thirty days for sales and use taxes, for taxes earned as of June 30, 2006. For federal and other reimbursements, the measurement period for accrual is generally sixty to seventy five days from the statement of net assets date if the related expenditures being reimbursed occurred previous to the report date of the statement of net assets. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Business – Type Activities – Government – Wide financial statements account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges. There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for – profit business. The Commonwealth’s Institutions of Higher Education’s operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

Proprietary and Fiduciary Funds – Fund financial statements are presented on the same basis of accounting as the business-type activities in the government – wide financial statements.

The Commonwealth reports the following fund types:

Governmental Fund Types:

General Fund, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources that have been aggregated according to Commonwealth Finance Law to support specific governmental activities.

Debt Service Fund accounts for the accumulation of resources for and the payment of debt.

Capital Projects Funds account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

Proprietary Fund Types:

Business - Type Activities account for programs financed in whole or in part by fees charged to external parties for goods and services.

Fiduciary Fund Types:

Pension Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth’s pension plans.

External Investment Trust Funds account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Private Purpose Funds account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purpose specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals. The remaining trust fund in the Massachusetts School Fund, established in 1834 a fund “for the aid and encouragement of common schools.” The fund was originally capitalized from the proceeds of the 1820’s sale of the public lands upon which the State of Maine was created.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Within the governmental fund types, the Commonwealth has established the following funds:

Highway Fund, a governmental fund, accounts for user taxes including the gas taxes and fees to finance highway maintenance and safety services.

Lottery Funds, governmental funds, account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid.

School Building Assistance Fund, a governmental fund, accounts for grants to cities, towns and regional school districts for school construction and renovation projects.

Debt Service Fund, a governmental fund, accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest.

Capital Projects - Central Artery Statewide Roads and Bridges Fund, a governmental fund, accounts for the construction of a portion of the Central Artery / Tunnel project financed from FY01 forward, as well as various other statewide road and bridge projects. These expenditures are financed from bond proceeds, certain revenues from Registry of Motor Vehicles fees (net of debt service expenditures) and payments from authorities.

The proprietary funds include the following:

Unemployment Compensation Fund reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

College and University Information, is presented here, aggregated by the University’s activity, the State Colleges activity and the Community College’s activity.

Reporting Standards

As allowed by GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commonwealth’s proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting

Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Fiscal Year Ends

All funds and discretely presented component units are reported using fiscal years, which end on June 30, except for the Massachusetts Turnpike Authority which utilizes a December 31 year end.

Program Revenue

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department's operations.

Operating and non-operating revenues and expenses

Revenues and expenses of business type activities and proprietary funds are classified as operating or nonoperating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

E. *Cash and Short-Term Investments*

The Commonwealth follows the practice of pooling the cash and cash equivalents of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and, when so directed by law, to certain Special Revenue and Capital Projects Funds.

MMDT investment transactions are accounted for as of each trade date. Gains and losses on securities sold are determined on the basis of identified cost. Unless otherwise noted, all investments are recorded at fair value.

The Pension Trust Funds, which includes other governmental entities, with investments of approximately \$42,813,676,000 at fair value and the Health Care Security Trust Account investments of approximately \$515,758,000 at fair value, are permitted to make investments in equity securities, fixed income securities, real estate, timber and other alternative investments. For investments traded in an active market, the fair value of the investment will be its market price. The Pension Trust Funds include investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leveraged buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentration of credit risk exists if a number of companies in which the fund has invested are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 2006, the estimated fair values, determined by management with input from the investment managers, of these real estate and alternative investments were \$9,298,681,000 the Pension Trust Funds, representing 19.56% of the total assets of the Fiduciary Fund Type.

Pension Trust Fund and External Investment Trust Fund net assets have been restricted as follows:

“Restricted for employee’s pension benefits” identifies resources held in trust for the members and beneficiaries of the Commonwealth’s pension plans.

“Restricted for external investment trust fund participants” identifies the portion of pooled cash and pension assets held under custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

The Commonwealth maintains a short-term investment pool. The investments are carried at amortized cost, which approximates fair value. The primary government’s and component unit’s share are reported as short-term investments within their respective reporting categories. The various local governments and other political subdivisions share of net assets is approximately \$2,100,356,000 at June 30, 2006, and is reported as an External Investment Trust within the Fiduciary Fund Type.

Included in the discretely presented component units are investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

F. *Securities Lending Program*

The Pension Trust Funds and the HCST participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the fair value of the security borrowed. The collateral securities cannot be pledged or sold by the Pension Reserve Investment Trust (PRIT) unless the lending agents default. The lending agents are required to indemnify PRIT in the event that they fail to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agents fail to perform their obligations as stipulated in the agreements. There were no losses resulting from default of the lending agents during the years ending June 30, 2006 and 2005. At June 30, 2006, the fair value of the securities on loan from PRIT was approximately \$1,066,000. The fair value of the collateral held by PRIT amounted to \$1,112,000 at June 30, 2006, of which \$450,000 was cash. The fair value of the securities on loan from HST was approximately \$7,044,000 and the fair value of the associated collateral amounted to approximately \$8,008,000 of which zero was cash.

G. *Receivables*

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available. If revenue is not received by year – end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts. These are the only types of receivables that have allowances.

H. Due From Cities and Towns

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as “Federal grants and reimbursements” or “Due from federal government” in the statement of net assets.

Included in receivables for FY06 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 “*Tobacco Settlement Recognition and Financial Reporting Entity Issues*”, a receivable has been declared for \$124.6 million, representing 50% of the amounts estimated to be received in FY07, adjusted for historical trends and included as part of a governmental fund and governmental activities within the statement of net assets.

On July 9, 2004, the Governor signed Chapter 169 of the Acts of 2004, (the Act) related to the financial ability of the City of Springfield, (the City). Section 2 of the Act provides for \$52,000,000 in zero interest loans to be drawn from time to time by a finance control board established by the act. This activity is recorded in the Springfield Fiscal Recovery Trust Fund, a non-major governmental fund. The loans are to be paid back to the Commonwealth no later than June 30, 2012. At the end of FY06, the City owed the Commonwealth \$21,000,000. During FY06, \$44,125,000 in cash flow was issued to the City from the Trust Fund. Of this amount, \$42,500,000 was repaid to the Commonwealth before June 30, 2006 and the remaining \$22,625,000 is reflected as “Due from Cities and Towns.” It is anticipated that this revolving activity will continue for the foreseeable future. The Act provides for no forgiveness of the loans and failure to repay the full value of loans disbursed from the fund to the city shall result in an equally commensurate reduction in local aid payments made by the Commonwealth to the City in FY13.

I. Fixed Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

Methods used to value capital assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization Policies

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized, if cost is greater than \$1. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed \$50,000 (\$1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

<i>Type of Asset</i>	Estimated Useful Life (in years)
Buildings	40
Infrastructure - roads, bridges and tunnels	40
Infrastructure - beaches, boardwalks, bikeways, etc.	25
Infrastructure - dams, water and sewer systems	50
Furniture	10
Library collections that are not historical treasures	15
Equipment, office equipment and life safety equipment	10
Computer hardware and software	3 to 7
Vehicles	5

Central Artery / Tunnel Project Depreciation

In FY05 and continuing in FY06, certain Central Artery / Tunnel Project segments were opened to traffic, but not yet transferred as of June 30, 2006 to the MTA or Massport, as required by Massachusetts general law. The Commonwealth is reporting these assets as Infrastructure – Central Artery / Tunnel Project and Land – Central Artery / Tunnel Project and has commenced depreciation on these assets. Because amounts are also reported as “Due to Component Units – Central Artery / Tunnel Project” and pursuant to provisions of Massachusetts statutes, the amount claimed on depreciation expense on the Central Artery / Tunnel Project is also an adjustment of the Due to Component Units – Central Artery / Tunnel Project to report the payable at net book value. These activities have no effect on the Commonwealth’s statement of activities.

Construction in Process

Construction in process includes all associated cumulative costs of a constructed fixed asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use. For the CA / T, construction in process is relieved upon agreement between the Massachusetts Highway Department, the MTA and / or the Massachusetts Port Authority, its engineers and respective boards. The chief engineer of the Highway Department, or their designees, jointly determine and certify to the MTA or the Massachusetts Port Authority that the respective authorities can safely open each such facility or segment thereof to vehicular traffic or that such facility can safely be used for its intended purpose. As of June 30 2006, approximately \$1,737,609,000 of project costs has been transferred to the various authorities, including \$10,252,000 of costs transferred outside of the current agreements to the Massachusetts Port Authority and \$10,696,000 to the Boston Redevelopment Authority.

J. *Interfund/Intrafund Transactions*

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type

activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

K. *Statewide Cost Allocation Plan – Fringe Benefit Cost Recovery*

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. Certain costs of nine “central service” agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefits from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees’ group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees’ group health insurance and worker’s compensation activity is accounted for in the governmental funds.

L. *School Construction Grants and Contract Assistance Payable*

The Commonwealth, through the MSBA, is committed to reimburse cities, towns and regional school districts for 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation. The MSBA’s enabling statute gave the authority responsibility for 728 grant projects under the former school building assistance program of the Commonwealth and 428 waiting list projects. Expenditures for the 728 approved grant projects are recorded as current and long-term liabilities in the statement of net assets once all applicable eligibility requirements have been met. Upon completion of the projects, all costs incurred by the grantees are subject to audit by the MSBA and, based on the results of the audits, the approved eligible costs and the related liability may increase or decrease. Completion of these audits by the MSBA will allow the MSBA to determine the final approved cost of these projects, and the MSBA will adjust the payments it makes for these projects in accordance with the results of those audits. The remaining wait list projects are reported as commitments. The MSBA activity is reported as a major fund on the Governmental Fund financial statements.

The Commonwealth recognizes contract assistance due to MCCA, R3N, MWPAT and MassDevelopment as long-term liabilities on the statement of net assets. These liabilities equate to portions or the whole of certain debt service of these entities. In addition, a payable is declared to the MTA as a cash flow reimbursement for the operations and maintenance of the Central Artery / Tunnel Project.

M. *Compensated Absences*

Compensated absences are recorded as a long-term liability in the statement of net assets. Short-term compensated absences represent obligations for sick and vacation payments to terminated employees as of June 30, 2006 but paid after the fiscal year end.

For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the business type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

- N. Long Term Obligations** Long-term obligations consist of unmatured long term debt obligations, CA/T assets due to discretely presented component units and related organizations, school construction grants payable (through the MSBA) and contract assistance payable to component units and other liabilities including capital lease obligations and the net pension obligation of the Commonwealth (representing the actuarially derived pension cost in excess of actual contributions made).
- O. Lottery Revenue and Prizes** Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the governmental funds and the governmental activities on the statement of net assets. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.
- P. Risk Financing** The Commonwealth does not insure for employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employee's workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.
- Q. Net Assets** The Commonwealth reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation.*" Otherwise, these balances are considered unrestricted.

Net Assets have been restricted as follows:

"Restricted for Capital Projects" – identifies amounts of unspent proceeds of capital bond issuances that can only be used for capital projects under federal tax laws.

"Restricted for unemployment benefits" – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

"Restricted for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998. Escrows related to crossover refundings are

also restricted. Because removal of monies from these restrictions will constitute a technical default to bondholders, the amounts are restricted.

“Restricted for central artery workers’ compensation and general liability” – identifies amounts held to pay future workers’ compensation and general liability claims through the Central Artery / Tunnel Project’s owner controlled insurance program. Various trust and insurance agreements require mutual consent of the Commonwealth and the companies involved to remove restrictions. Any program assets remaining after all losses and other obligations of the Central Artery / Tunnel Project are paid will revert to the Commonwealth.

“Restricted for pension obligations” – identifies the cumulative timing differences between pension payments and actuarially required contributions since the implementation of GASB Statement No. 27, “Accounting for Pensions by State and Local Government Employers.”

“Restricted for other purposes” – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the Commonwealth through constitutional or enabling statutes not otherwise delineated and prior appropriations continued.

As of June 30, 2006, the government-wide statement of net assets reports the following as restricted net assets:

Restricted for:	Governmental Activities	Business Type Activities	Government Wide Total
Capital projects.....	\$ 19,223	\$ -	\$ 19,223
Unemployment benefits.....	-	1,264,391	1,264,391
Retirement of indebtedness.....	944,159	-	944,159
Central artery workers' compensation and general liability.....	49,959	-	49,959
Pension benefits.....	(191,545)	-	(191,545)
Restricted for other purposes.....	936,495	551,675	1,488,170
Total restricted net assets.....	<u>\$ 1,758,291</u>	<u>\$ 1,816,066</u>	<u>\$ 3,574,357</u>

As of June 30, 2006, the government – wide statement of net assets reports \$1,758,291,000 of restricted net assets, of which \$936,495,000 is restricted for appropriation.

R. Reclassifications and Restatement

Certain amounts in the separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. These amounts are presented as reclassifications in the combining statements for said Component Units. Due to the provisions of GASB Statement No. 34 (“GASB 34”) “Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments”, major governmental and proprietary funds presented in a previous year may not be major fund presented in the current year.

During FY06, the Commonwealth implemented GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation.” The Statement amends GASB Statement No. 34, “Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments” paragraph 34. Statement 46 requires governments to determine legal enforceability of restrictions. Enforceability is determined if a government can be compelled by an external

party. However, ultimate determination may never occur unless tested through the judicial process. Due to this implementation, the Commonwealth's net asset and liability positions in pensions were reclassified from unrestricted net assets to restricted net assets. Also reserves for stabilization and transitional escrow were transferred to unrestricted net assets. No effect occurred on total net assets of the Commonwealth.

The following is a reconciliation of changes to net asset classifications as a result of implementing Statement No. 46:

	Primary Government		
	Governmental Activities	Business Type Activities	Government Wide Total
Unrestricted Net Assets as of June 30, 2005	\$ (15,160,199)	\$ 562,777	\$ (14,597,422)
Reclassification of transitional escrow reserve amounts from restricted to unrestricted amounts.....	304,838	-	304,838
Reclassification of stabilization reserve amounts from restricted to unrestricted amounts.....	1,729,051	-	1,729,051
Subtotal.....	(13,126,310)	562,777	(12,563,533)
Reclassification of Boston teachers' retirement system net pension obligation to restricted net assets.....	96,279	-	96,279
Adjusted Unrestricted Net Assets as of June 30, 2005	<u>\$ (13,030,031)</u>	<u>\$ 562,777</u>	<u>\$ (12,467,254)</u>
Restricted Net Assets for Other Purposes as of June 30, 2005	\$ 2,363,444	\$ 513,314	\$ 2,876,758
Less:			
Reclassification of transitional escrow reserve amounts from restricted to unrestricted amounts.....	(304,838)	-	(304,838)
Reclassification of stabilization reserve amounts from restricted to unrestricted amounts.....	(1,729,051)	-	(1,729,051)
Subtotal.....	329,555	513,314	842,869
Reclassification of Boston teachers' retirement system net pension obligation to restricted net assets.....	(96,279)	-	(96,279)
Adjusted Restricted Net Assets for Other Purposes as of June 30, 2005	233,276	513,314	746,590
Other unchanged restricted amounts.....	1,055,898	817,739	1,873,637
Unchanged invested in capital assets, net of related debt.....	196,765	1,149,352	1,346,117
Total Adjusted Restricted Net Assets and Investment in Capital Assets, net of related debt.....	1,485,939	2,480,405	3,966,344
Adjusted Unrestricted Net Assets as of June 30, 2005	<u>(13,030,031)</u>	<u>562,777</u>	<u>(12,467,254)</u>
Total Net Assets as of June 30, 2005	<u>\$ (11,544,092)</u>	<u>\$ 3,043,182</u>	<u>\$ (8,500,910)</u>

**S. *Accounting
Standards***

In addition to GASB 46 discussed above, during FY06, the Commonwealth implemented the following GASB accounting standards:

Statement No. 42 “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*”.

Statement No. 44 “*Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*”.

Statement No. 47 “*Accounting for Termination Benefits*”.

There is no financial impact relating to the implementation of these standards.

In FY08, the Commonwealth will be implementing Statement No. 45 “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*” and the related GASB Technical Bulletin 2006-1 “*Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*”. As of the date of the opinion, though the Commonwealth has performed an actuarial valuation as discussed in footnote 10, the Commonwealth has not evaluated the financial impact of implementing this statement.

The Commonwealth will also be implementing Statement No. 48 “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*” and Statement No. 49 “*Accounting and Financial Reporting for Pollution Remediation Obligations*” in FY08. As of the date of the opinion, the Commonwealth has not evaluated the financial impact of implementing these statements.

2. BUDGETARY CONTROL

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The following table summarizes budgetary activity for FY06:

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 45 of the Acts of 2005:		
Direct appropriations.....	\$ 23,488,242	\$ 22,642,290
Estimated revenues, transfers, direct appropriations retained revenue appropriation carried forward from FY2005	<u>1,499,758</u>	<u>1,831,063</u>
Total original budget.....	24,988,000	24,473,353
Supplemental Acts of 2005:		
Chapter 106.....	-	1,350
Chapter 125.....	-	650
Chapter 140.....	-	20,000
Chapter 167.....	-	53,669
Supplemental Acts of 2006:		
Chapter 22.....	-	1,000
Chapter 48.....	-	1,500
Chapter 58.....	-	30,000
Chapter 64.....	-	132,141
Chapter 122.....	-	301,634
Chapter 123.....	-	143,481
Chapter 173.....	-	<u>34,000</u>
Total before June 30, 2006	24,988,000	25,192,778
Supplemental Acts of 2006, passed after June 30:		
Chapter 192	-	183,918
Chapter 205	-	4,750
Chapter 310	-	<u>88,618</u>
Total budgeted revenues and expenditures per Legislative action.....	24,988,000	25,470,064
Plus: Transfers of revenues and expenditures (including rounding).....	-	1,554,175
Budgeted revenues and expenditures as reported.....	<u>\$ 24,988,000</u>	<u>\$ 27,024,239</u>

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth’s MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

3. DEPOSITS AND INVESTMENTS

Primary Government -

The Commonwealth maintains a cash and short-term investment pool that is available for use by all funds. Each fund type's net equity in this pool is displayed on the combined balance sheet as either "Cash and short-term investments" or "Deficiency in cash and short-term investments." The investments of the Pension Trust Funds are held in a separate trust.

The Treasury manages the Commonwealth's short-term investment pool, the MMDT. The Massachusetts General Laws authorize investments in money market funds operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations or in any other security that qualifies for inclusion in a fund operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations as amended from time to time. Such investments are carried at cost, which approximates fair value.

Pooled cash and short-term investments include the following:

	Governmental Activities	Business Type Activities	Government Wide Total
Cash and short-term investments.....	\$ 5,035,690	\$ 480,578	\$ 5,516,268
Cash with fiscal agent.....	983,217	-	983,217
Total.....	<u>\$ 6,018,907</u>	<u>\$ 480,578</u>	<u>\$ 6,499,485</u>

As of June 30, 2006, the MSBA held the following deposits and investments which are a component of Governmental Activities above.

Cash and cash equivalents.....	\$ 330,917
Guaranteed investment contracts.....	845,488
Restricted cash.....	<u>329,300</u>
Total.....	<u>\$ 1,505,705</u>

Investments in the MMDT are classified as cash and short term investments above and include the Short Term Bond Fund (the Fund) authorized under General Laws Chapter 29, Section 38. Investments in the Fund are made in investment grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Fund by using duration. Duration is managed to within 0.5 years of the duration of the benchmark, the Lehman Brothers® 1 to 5 year Government / Credit Index. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as the weights.

MSBA Deposits and Investments

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum credit quality for certain instruments, outlines investment procedures and

updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

As of June 30, 2006, the MMDT Cash Fund is carried as a cash equivalent by the Commonwealth as its weighted average maturity is less than 90 days. For the Short Term Bond Fund, the weighted average maturity is 10.8 years. Investments in the MMDT Short Term Bond Fund which are included as a component of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
Asset backed securities.....	\$ 26,008	\$ -	\$ 11,166	\$ 10,841	\$ 4,000
Collateralized mortgage obligations.....	18,232	-	-	524	17,708
Commercial mortgage securities.....	34,783	-	-	-	34,783
Foreign government and government agency obligations.....	2,216	-	2,216	-	-
Nonconvertible bonds.....	55,658	1,528	52,110	1,034	987
Repurchase agreements.....	5,454	5,454	-	-	-
US Government agency mortgage securities.....	50,726	-	-	-	50,726
US Government agency obligations.....	107,658	-	107,658	-	-
US Treasury obligations.....	53,294	-	53,294	-	-
Total Investments.....	354,029	6,982	226,444	12,399	108,204
Other Assets.....	2,702	2,702	-	-	-
Other Liabilities.....	(5,456)	(5,456)	-	-	-
Net Investments.....	\$ 351,275	\$ 4,228	\$ 226,444	\$ 12,399	\$ 108,204

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned

MSBA

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as uninsured deposits. As of June 30, 2006, the bank balances of uninsured deposits total \$330.8 million.

HCST

HCST manages exposure to custodial credit risk by requiring all of its investment managers to hold investments in separate accounts with HCST's custodian. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. As of June 30, 2006, \$616,676 of the Account's \$716,676 cash balance was uninsured and exposed to custodial credit risk.

Interest Rate Risk – Primary Government

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. The table on page 85 provides information about the interest rate risk associated with the Commonwealth's investments, exclusive of its Pension Trust Funds but inclusive of the HCST, which is managed by PRIT. These investments include

certain short – term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining an effective duration of less than 90 days and holding all of the portfolio’s total market value in securities with a maturity of six months or less.

MSBA

The MSBA’s investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2006, the MSBA had \$1.1 billion invested in guaranteed investment contracts, of which \$226.5 million is included in restricted cash. These contracts are recorded at fair value. All of these contracts mature within one year.

HCST

The HCST manages exposure to fair value loss arising from movements in interest rates with its fixed income investment securities by having the PRIM Board establish duration guidelines. The guidelines with each individual manager require that the effective duration of the HCST’s domestic fixed investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index.

Effective duration is a measure of a fixed income investment’s exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes including callable options, prepayments and other factors. These factors are reflected in the effective duration numbers provided in the following table. HCST compares the effective duration of a manager’s portfolio to the Lehman Brothers Aggregate Index for domestic core fixed income securities and the Merrill Lynch High Yield Master II Index for domestic high yield fixed income securities. The following table shows the debt investments by investment type, fair value and effective weighted duration rate at June 30 for HCST:

Investment	<u>Fair value</u>	<u>Effective weighed duration rate</u> (Amounts expressed in years)
Asset backed securities.....	\$ 7,137	1.21
Commercial mortgage backed securities.....	4,449	3.89
Commercial paper.....	10,907	0.02
Corporate bonds and other credits.....	41,326	3.66
Municipal bonds.....	415	8.03
Non-U.S. Government backed C.M.O.s.....	3,308	2.07
Other pooled funds.....	30,911	NA
Pooled money market fund.....	11,026	0.08
U.S. Government agencies.....	4,201	0.52
U.S. Government mortgage backed securities.....	49,628	4.5
U.S. Government bonds.....	<u>16,977</u>	3.4
Total HCST fixed income and short - term investments..	<u>\$ 180,285</u>	

Credit Risk – Primary Government

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 10% of the total investment portfolio into any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions in the amount that can be invested in public entity securities; however, the portfolio may be invested in U.S. Treasury obligations and repurchase agreements.

The Treasury requires investments in commercial paper and bankers' acceptances have the highest letter and numerical ranking as rated by nationally recognized statistical ratings organizations as defined by the investment act of 1940. The Treasury does not have any additional policies regarding credit ratings of investments. The following table (in thousands of dollars) provides information on the credit ratings associated with the Commonwealth's investments in debt securities:

	Fair Value	Quality Ratings						
		A1 / P1	A2 / P2	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to Unrated
Cash Fund								
Certificates of Deposit.....	\$ 671,976	\$ 671,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Paper.....	1,877,768	1,714,157	163,610	-	-	-	-	-
Medium Term Notes.....	1,089,598	878,934	-	-	-	-	-	210,664
Repurchase Agreements.....	74,797	-	-	-	-	-	-	74,797
US Treasury Obligations.....	15,799	-	-	-	-	-	-	15,799
Other Deposits, Assets and Liabilities, net.....	(83,510)	-	-	-	-	-	-	(83,510)
Subtotal - Cash Fund.....	3,646,428	3,265,067	163,610	-	-	-	-	217,750
Bond Fund								
Asset Backed Securities.....	26,008	-	-	15,116	-	7,128	3,764	-
Collateralized Mortgage Obligations.....	18,232	3,209	-	-	-	-	-	15,023
Collateralized Mortgage Securities.....	34,783	-	-	21,993	-	-	-	12,790
Foreign Government and Government Agency Obligations.....	2,216	-	-	-	-	-	2,216	-
Nonconvertible Bonds.....	55,658	-	-	-	9,189	28,016	18,545	-
Repurchase Agreements.....	5,456	-	-	-	-	-	-	5,456
US Government Agency Obligations.....	107,658	-	-	98,076	9,582	-	-	-
US Treasury Obligations.....	53,294	-	-	53,294	-	-	-	-
US Government Agency Mortgage Securities.....	50,726	49,545	-	-	-	-	-	1,180
Other Deposits, Assets and Liabilities, net.....	(2,756)	-	-	-	-	-	-	(2,756)
Subtotal - Bond Fund.....	351,275	52,754	-	188,479	18,771	35,144	24,525	31,693
Total MMDT Fixed Income Investments.....	\$ 3,997,703	\$ 3,317,821	\$ 163,610	\$ 188,479	\$ 18,771	\$ 35,144	\$ 24,525	\$ 249,443

*Credit Risk**MSBA*

The MSBA's guaranteed investment contracts as of June 30, 2006 were rated by national rating organizations and ranged from AA- to AAA.

HCST

For the HCST, the weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30,

2006. The following represents the accounts fixed income securities as of June 30, 2006:

<u>Investment</u>	<u>Fair Value</u>	<u>Quality Ratings</u>				
		<u>AAA</u>	<u>AA+ to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BBB-</u>	<u>BB+ to Unrated</u>
Asset backed securities.....	\$ 7,137	\$ 7,003	\$ -	\$ -	\$ -	\$ 134
Commercial mortgage backed securities.....	4,449	4,449	-	-	-	-
Non-U.S. government backed C.M.O.s.....	3,308	3,108	-	-	-	200
Commercial paper and CD's.....	10,907	4,281	-	-	-	6,626
Corporate bonds and other credits.....	41,326	3,948	4,669	6,775	9,659	16,275
U.S. government agencies.....	4,201	4,201	-	-	-	-
U.S. government backed securities.....	49,628	49,628	-	-	-	-
Municipal bonds.....	415	-	102	-	314	-
Pooled money market fund.....	11,026	-	-	-	-	11,026
Other pooled funds.....	<u>30,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,911</u>
Total credit risk, fixed income and short-term investments.....	163,308	<u>\$ 76,617</u>	<u>\$ 4,771</u>	<u>\$ 6,775</u>	<u>\$ 9,973</u>	<u>\$ 65,172</u>
Fixed income investments explicitly backed by the U.S. Government.....	<u>16,977</u>					
Total fixed income and short-term investments.....	<u>\$ 180,285</u>					

Foreign Currency Risk – HCST

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. HCST manages exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and / or country holdings must be within a certain percentage of predefined benchmarks. The following table represents HCST's foreign currency exposure at June 30, 2006:

	<u>Cash and Short-Term Investments</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Alternative Investments</u>	<u>Total</u>
Argentine Peso.....	\$ -	\$ -	\$ 160	\$ -	\$ 160
Australian Dollar.....	7	2,626	-	-	2,633
British Pound.....	316	15,947	-	-	16,263
Canadian Dollar.....	1	-	-	-	1
Columbian Peso.....	-	-	72	-	72
Danish Krone.....	3	1,203	-	-	1,206
Euro.....	165	21,350	-	-	21,516
Hong Kong Dollar.....	-	1,826	-	-	1,826
Japanese Yen.....	140	18,048	776	-	18,964
Mexican Peso.....	23	-	503	-	527
New Zealand Dollar.....	3	72	154	-	229
Norwegian Krone.....	-	124	-	-	124
Singapore Dollar.....	7	984	-	-	990
Swedish Krona.....	9	2,661	-	-	2,670
Swiss Franc.....	117	3,776	-	-	3,893
International fixed income pooled funds (various currencies).....	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,941</u>	<u>3,941</u>
Total securities subject to foreign currency risk.....	790	68,618	1,666	3,941	75,015
International investments denominated in U.S. Dollars.....	<u>-</u>	<u>8,207</u>	<u>11,695</u>	<u>-</u>	<u>19,902</u>
Total international investments, deposits and cash.....	<u>\$ 790</u>	<u>\$ 76,825</u>	<u>\$ 13,361</u>	<u>\$ 3,941</u>	<u>\$ 94,918</u>

Interest Rate Risk – Pension Trust Funds

As pension trust funds have a different investment horizon, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities investment managers. The guidelines with each individual manager require that the duration of the domestic debt investment portfolio be within a specified percentage or number of years of the duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors. These factors are reflected in the effective durations numbers provided in the table on the following page.

The PRIM Board compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch High Yield Master II Index for domestic high yield fixed income securities. At June 30, 2006, the following table shows the debt investments by investment type, fair value and effective weighted duration rate. (amounts in thousands except for years):

<u>Investment</u>	<u>Fair Value</u>	<u>Effective Weighted Duration Rate</u> (Years)
Asset backed securities.....	\$ 427,296	0.69
Commercial mortgage backed securities.....	240,956	3.63
Non-U. S. Government backed C.M.O.s.....	192,230	2.81
Commercial paper and CD's.....	518,230	0.07
Repurchase agreements.....	117,400	-
Corporate bonds and other credits.....	2,171,982	3.79
U.S. Government bonds.....	1,823,088	1.98
U.S. Government agencies.....	487,325	1.46
U.S. Government TIPS.....	1,858,610	4.44
U.S. Government mortgage backed securities.....	1,571,315	5.60
Global inflation linked bonds.....	448,158	9.75
Municipal bonds.....	12,789	8.60
Pooled money market fund.....	987,933	0.08
Other pooled funds.....	<u>1,083,961</u>	NA
Total Pension Fund fixed income and short-term investments.....	<u>\$ 11,941,273</u>	

Credit Risk - Pension Trust Funds

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio

establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. The weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2006.

The following presents the PRIT Fund's debt securities credit ratings at June 30, 2006 :

<u>Investment</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA+ to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BBB-</u>	<u>BB+ to Unrated</u>
Asset backed securities.....	\$ 427,296	\$ 424,193	\$ -	\$ -	\$ 308	\$ 2,795
Commercial mortgage backed securities.....	240,956	235,698	5,258	-	-	-
Non-U.S. government backed C.M.O.s.....	192,230	184,730	-	-	-	7,500
Commercial paper and CD's.....	518,230	246,507	-	-	-	271,723
Corporate bonds and other credits.....	2,171,982	143,184	142,541	231,214	441,256	1,213,787
U.S. government agencies.....	487,325	484,990	2,335	-	-	-
U.S. government backed securities.....	1,801,371	1,790,402	-	-	-	10,969
Global inflation linked bonds.....	448,158	423,111	7,165	17,882	-	-
Municipal bonds.....	12,789	-	2,904	425	9,460	-
Pooled money market fund.....	987,933	-	-	-	-	987,933
Other pooled funds.....	1,083,961	-	-	-	-	1,083,961
Total credit risk, fixed income and short-term investments.....	8,372,231	\$ 3,932,815	\$ 160,203	\$ 249,521	\$ 451,024	\$ 3,578,668
Fixed income investments explicitly backed by the U.S. Government.....	3,569,042					
Total Pension Fund fixed income and short-term investments.....	\$ 11,941,273					

Foreign Currency Risk – Pension Trust Funds

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by holding a percentage of PRIT's non-U.S. dollar denominated investments to U.S. dollars through forward foreign currency contracts. The following table on the next page represents PRIT's foreign currency exposure at June 30, 2006:

	Cash and Short-Term Investments	Equity	Fixed Income	Alternative Investments	Total
Argentine Peso.....	\$ 59	\$ 578	\$ 3,397	\$ -	\$ 4,034
Australian Dollar.....	2,509	289,801	29,542	-	321,852
Brazilian Real.....	3,346	185,228	-	-	188,574
British Pound.....	40,790	1,659,968	168,505	-	1,869,263
Canadian Dollar.....	5,541	-	18,561	-	24,102
Chilean Peso.....	-	9,514	-	-	9,514
Columbian Peso.....	1	4,004	-	-	4,005
Czech Coruna.....	-	4,198	-	-	4,198
Danish Krone.....	1,888	91,802	-	-	93,690
Egyptian Pound.....	62	8,213	-	-	8,275
Euro.....	42,515	2,158,422	209,152	-	2,410,089
Hong Kong Dollar.....	595	335,245	618	-	336,458
Hungarian Forint.....	1	3,608	-	-	3,609
Indian Rupee.....	543	16,664	-	-	17,207
Indonesian Rupian.....	-	19,730	-	-	19,730
Israeli Shekel.....	116	12,586	-	-	12,702
Japanese Yen.....	16,598	1,776,099	50,015	-	1,842,712
Malaysian Ringgit.....	276	65,594	-	-	65,870
Mexican Peso.....	446	54,519	8,218	-	63,183
Taiwan Dollar.....	6,441	207,832	-	-	214,273
Turkish Lira.....	-	30,147	-	-	30,147
New Zealand Dollar.....	756	10,159	5,923	-	16,838
Norwegian Krone.....	350	34,171	-	-	34,521
Pakistan Rupee.....	-	640	-	-	640
Peruvian Neuvo Sol.....	-	1,853	-	-	1,853
Philippines Peso.....	6	8,182	-	-	8,188
Polish Zloty.....	148	12,462	3,221	-	15,831
Russian Rubel.....	44	202,031	-	-	202,075
Singapore Dollar.....	1,072	78,008	-	-	79,080
South Korean Won.....	283	516,652	-	-	516,935
Swedish Krona.....	2,904	216,124	27,880	-	246,908
Swiss Franc.....	5,339	393,965	-	-	399,304
Thailand Baht.....	12	40,419	-	-	40,431
Alternative investment funds denominated in foreign currencies (various currencies).....	-	-	-	277,356	277,356
International equity pooled funds (various currencies).....	-	140,485	-	-	140,485
International fixed income pooled funds (various currencies).....	-	-	370,144	-	370,144
Total securities subject to foreign currency risk.....	132,641	8,588,903	895,176	277,356	9,894,076
International investments denominated in U.S. Dollars.....	-	1,180,970	924,224	-	2,105,194
Total Pension Fund international investments, deposits and cash.....	\$ 132,641	\$ 9,769,873	\$ 1,819,400	\$ 277,356	\$ 11,999,270

Concentration of Credit Risk –HCST and Pension Trust Funds

The PRIM Board manages HCST's and PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager, that limit the percent of investment in any single issue or issuer.

HCST and PRIT have no investments at fair value, that exceed 5% of PRIT's net assets held in trust for pool participants as of June 30, 2006.

HCST and PRIT may invest in derivative transactions. These investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. Descriptions of such derivatives are as follows:

A. Derivative Instruments*Forward Currency Contracts*

The HCST and Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss by the Pension Trust Fund.

When a contract is closed, the Pension Trust Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

As of June 30, 2006, HCST had open foreign exchange contracts with combined net unrealized gains of approximately three thousand dollars with various delivery dates in July 2006. As of June 30, 2006, PRIT had open foreign exchange contracts with combined net unrealized losses of \$4,411,000 with various delivery dates to November, 2006.

Futures Contracts

The HCST and Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may correspond to the change in value of the hedged instruments. In addition, there is a risk that HCST and PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The HCST and Pension Trust Funds may also invest in financial futures contracts for non-hedging purposes.

Payments are made or received by the Pension Trust Funds each day, depending on the daily fluctuations in the value of the underlying security and are recorded as unrealized gains or losses. When the contracts are closed, the HCST and Pension Trust Funds recognize a realized gain or loss.

Options

PRIT is also engaged in selling or “writing” options. The Pension Trust Funds, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bear the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 2006 there were no material options outstanding.

Swap Agreements at PRIT and HCST

During FY06, PRIT’s Core Realty Holdings LLC (a limited liability company inclusive of PRIT and HCST – “LLC,”) held interest rate swap contracts for the purpose of hedging its floating – rate interest exposure. As of June 30, 2006, PRIT holds 99.33% of the LLC while HCST holds the remaining 0.67%. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs) to the LLC. The LLC either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable – rate interest. Changes in the fair value of the swap contracts are included in net change in unrealized appreciation on investments and foreign currency transactions, and the income or expense related to settlements of interest under the contracts are included in real estate income, net in PRIT and HCST’s financial statements.

As of June 30, 2006, the LLC had the following swap contracts in effect:

<u>Counterparty</u>	<u>Fixed Rate Paid</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Fair-Value</u>
Bear Stearns Bank PLC.....	3.95%	\$ 50,000	08/19/02	09/01/07	\$ 863
Bank of America.....	4.18%	50,000	12/02/02	12/03/12	3,312
Citibank, N. A. New York.....	3.68%	50,000	01/01/03	01/01/10	2,730
Mellon Bank.....	3.17%	50,000	01/30/03	02/01/08	1,765
Mellon Bank.....	3.82%	50,000	03/06/03	06/01/13	4,581
Bear Stearns Bank PLC.....	3.45%	50,000	05/13/03	06/01/11	4,218
Bear Stearns Bank PLC.....	3.37%	50,000	11/24/03	03/01/09	2,533
Citibank, N. A. New York.....	4.17%	50,000	12/20/04	03/01/14	3,896
Citibank, N. A. New York.....	4.27%	50,000	02/15/05	12/01/15	4,282
		<u>\$ 450,000</u>			<u>\$ 28,180</u>

To determine the fair values of its swap agreements, the LLC uses methods and assumptions considering market conditions and risks existing at the date of PRIT's financial statements. Such methods and assumptions incorporate standard valuation conventions and techniques such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result in only general approximations of value, and such values may or may not actually be realized. Fair value estimates are closely correlated with changes in market interest rates and the passage of time. For example, rising market interest rates will generally increase the swaps' termination values to the LLC, whereas termination values are generally reduced as the swaps approach their maturity dates and fewer interest settlements remain under the contracts. As of June 30, 2006, neither the LLC, nor its counterparties expressed intentions to terminate its swap agreements prior to their scheduled maturity dates.

**B. Discretely Presented
Component Unit
Investments**

Management of the various discretely presented component units hedge interest rate risk and credit risk differently, dependent on the particular needs and circumstances of each entity. More detailed information may be found in the component units' separately audited financial statements. In the aggregate, interest rate risk and credit risk of the investments of the discretely presented component units at June 30, 2006 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>Investment Maturities (in years)</u>			<u>Over 10 years</u>	<u>Range of Credit Ratings</u>
			<u>1-5 years</u>	<u>6-10 years</u>			
Forward delivery agreements.....	\$ 240,133	\$ 240,133	\$ -	\$ -	\$ -	N/R	
Guaranteed investment contracts	2,090,394	138,638	687,492	360,020	904,244	N/R - AAA	
Fixed income securities.....	2,205	-	2,205	-	-	N/R - AAA	
Repurchase agreements.....	115,596	115,596	-	-	-	N/R - AAA	
Various federal obligations.....	405,252	83,315	110,846	104,626	106,465	AAA	
Corporate bonds.....	15,877	2,011	13,346	520	-	BBB - AAA	
Asset backed securities.....	6,402	-	529	1,626	4,247	N/R - AAA	
Auction rate securities.....	39,325	39,325	-	-	-	AAA	
Total Fixed Income Investments.....	\$ 2,915,184	\$ 619,018	\$ 814,418	\$ 466,792	\$ 1,014,956		
<u>Other Investments</u>							
Equities.....	3,693						
MMDT.....	542,524						
Short - term investment funds.....	73,197						
Money market mutual funds.....	288,730						
Total Investments	\$ 3,823,328						

Custodial Credit Risk-Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the component unit's deposits may not be recovered. The component units do not have deposit policies for custodial credit risk. At June 30, 2006, the carrying amount of deposits totaled \$453,057 and the bank balance was \$456,609. Of the bank balance \$314,588 was insured and collateralized and \$142,021 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Foreign Currency Risk-Investment

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The component units are exposed to foreign currency risk as of June 30, 2006.

Concentration of Credit Risk – MBTA – MWPAT - MTA

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. MWPAT places no limit on the amount that may be invested in any one issuer. More than 5% of MBTA, MWPAT and MTA's total investments are with the following issuers:

<u>Issuer:</u>	<u>Percent of Total Investments</u>		
	<u>MBTA</u>	<u>MWPAT</u>	<u>MTA</u>
AIG.....	8.0%	-	9.2%
AMBAC.....	10.5%	-	-
Bank of America.....	7.3%	-	-
Federal Home Loan Bank (FHLB).....	-	-	24.6%
Federal Home Loan Mortgage Corporation (FHLMC).....	-	-	4.4%
Federal National Mortgage Association (FNMA).....	-	-	9.9%
FSA Capital Management Services, LLC.....	5.3%	22.0%	-
General Electric Capital Corp.....	-	-	3.6%
IXIS Funding Corp.....	28.9%	22.0%	-
MBIA.....	6.5%	-	-
Societe Generale.....	-	5.0%	-
Trinity Funding Company, LLC.....	-	24.0%	-
Wachovia Bank.....	10.3%	-	-

Component Unit Swap Agreements

The MBTA has three interest rate swaps and swaptions in order to lower its cost of capital, protect against rising interest rates, lock in interest rate savings, realize refinancing savings according to schedules that suit the MBTA's needs, and to provide the authority with a stable and predictable cost of fuel. At June 30, 2006, the MBTA's swap and swaption transactions had an aggregate notional amount of \$575.0 million, with fixed payable rates ranging from 3.8% to 4.2%, variable receipt rates equal to the Bond Market Association Municipal Swap Index (BMA). One swap has a lump sum payment due from a counterparty in FY07 for \$4.4 million, which is recognized as deferred revenue. In June 2006, the MBTA issued Sales Tax Bonds with a fair value of \$260.5 million, which effectively terminate the \$280.0 million forward swap. The MBTA received a swap termination payment of \$6.4 million.

In FY99, the MTA entered into an interest rate swap option agreement with Morgan Guaranty Trust Company of New York (MGTC). This "Swaption" agreement runs through July 1, 2029 and carries a notional amount of \$100 million. The MTA received a premium payment in FY00 of \$5.4 million as part of the agreement. This premium was recorded by the MTA as a deferred credit and is being recognized as an adjustment of interest expense over the 30-year life of the agreement. MGTC had the right, but not the obligation, to exercise the swap option on January 1, April 1, July 1 and October 1 of any year from July 1, 2002 to July 1, 2029. MGTC had the right to enter the MTA into the swap when the average BMA / London Interbank Offered Rate (LIBOR) ratio exceeds 72% over 12 consecutive months beginning April 1, 2002. The MTA's payment obligation would be equal to the difference between the BMA and 67% of LIBOR, multiplied by the \$100 million. Conversely, the Authority may receive payments under this agreement when 67% of LIBOR exceeds the BMA. MGTC exercised its option on October 1, 2002. The MTA may be exposed to certain risks related to this transaction should the counterparty default. Counterparty ratings range from AA to Aa2.

In FY01, the MTA entered into five interest rate swap options with UBS AG, the Parent Company of UBS Paine Webber (UBS). These swaptions grant UBS the right to enter a swap with the MTA in which UBS would pay a floating rate and receive a fixed rate from the MTA. The swaption exercise dates and fixed rates due from the MTA are designed to match the call provisions and rates of certain of the MTA's bonds. If UBS exercises its option, the MTA expects to refund certain of its fixed rate bonds with floating rate bonds. The floating rate received by the MTA under the swap would provide a hedge for the floating rate due on its refunding bonds. In turn, the MTA's payments to UBS would match the payments expected to be made to fixed rate bondholders. UBS paid \$6.2 million on behalf of the MTA during FY01 to purchase insurance for the payments that the MTA may be required to make under the swaps, if exercised. This amount was recorded in the MTA's financial statements as prepaid insurance and is amortized over the life of the swap, which is 35 years.

As of December 31, 2005 the MTA had recorded a long-term receivable of \$5.8 million related to the swaption. A corresponding deferred credit totaling \$29.1 million was recorded during FY06 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

In FY03, the MTA entered into five interest rate swap option agreements with Lehman Brothers Special Financing Inc. (Lehman). These swaptions grant Lehman the right to enter a swap with the MTA in which Lehman would pay the MTA a fixed rate of 5% and the MTA would pay Lehman a floating rate of BMA. As a fixed – to – floating swap, the transaction was designed to "offset" the FY01 UBS swaption and, as a result, has the effect of mitigating certain risks inherent in that transaction if both are executed. Lehman paid \$6.4 million to the MTA during FY03 and will pay an additional \$28.8 million in subsequent years. This amount was recorded in the MTA's financial statements as a deferred credit and will be amortized over the life of the swap, which is 35 years.

A corresponding deferred credit totaling \$17.5 million was recorded during FY06 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The MTA may be exposed to certain risks related to this transaction should the counterparty default. The unamortized balance as of December 31, 2005 is \$32.2 million.

Receivable amounts recorded by the MTA under these agreements are as follows:

Due January 1,	UBS Amounts	Lehman Amounts
2006.....	\$ 3,281	\$ 5,849
2007.....	3,281	5,848
2008.....	3,281	-
	9,843	11,697
Less: current portion.....	(3,281)	(5,849)
	<u>\$ 6,562</u>	<u>\$ 5,848</u>

4. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets as follows:

<i>Primary Government</i>	Taxes <u>Receivable</u>	Federal Grants and <u>Reimbursements</u>	<u>Loans</u>	Other <u>Receivables</u>	<u>Total</u>
Governmental receivables	\$ 3,662,591	\$ 1,092,148	\$ -	\$ 1,650,509	\$ 6,405,248
Business-type activity receivables.....	-	34,276	60,975	888,180	983,431
Less: allowance for uncollectibles.....	<u>(951,043)</u>	<u>(9,191)</u>	<u>(5,002)</u>	<u>(1,441,672)</u>	<u>(2,406,908)</u>
Receivables, net of allowance for uncollectibles	2,711,548	1,117,233	55,973	1,097,017	4,981,771
Less: current portion:					
Governmental activities	(2,711,548)	(1,082,957)	-	(373,249)	(4,167,754)
Business-type activities	<u>-</u>	<u>(34,276)</u>	<u>(39,586)</u>	<u>(688,760)</u>	<u>(762,622)</u>
Noncurrent receivables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,387</u>	<u>\$ 35,008</u>	<u>\$ 51,395</u>

<i>Discretely Presented Component Units</i>	Taxes <u>Receivable</u>	Federal Grants and <u>Reimbursements</u>	<u>Loans</u>	Other <u>Receivables</u>	<u>Total</u>
Massachusetts Bay Transportation Authority	\$ -	\$ 9,533	\$ -	\$ 33,545	\$ 43,078
Massachusetts Turnpike Authority.....	-	-	-	41,728	41,728
Massachusetts Water Pollution Abatement Trust	-	15,931	2,738,895	84,904	2,839,730
Nonmajor component units	-	30,433	366,058	70,505	466,996
Less: allowance for uncollectibles.....	<u>-</u>	<u>-</u>	<u>(19,623)</u>	<u>(6,514)</u>	<u>(26,137)</u>
Receivables, net of allowance for uncollectibles	-	55,897	3,085,330	224,168	3,365,395
Less: current portion	<u>-</u>	<u>(55,897)</u>	<u>(199,687)</u>	<u>(204,948)</u>	<u>(460,532)</u>
Noncurrent receivables	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,885,643</u>	<u>\$ 19,220</u>	<u>\$ 2,904,863</u>

5. RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of receivables, payables and transfers between funds vary by Legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end stabilization transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from stabilization to fund current operations and various other transfers for operations. Activity between funds reflected as due to / from primary government in the combined balance sheet and various transfers in the combined statement of revenues, expenditures and changes in fund balance as of June 30, 2006 are summarized as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Governmental Funds		
General	Highway	\$ 58,566
	Lotteries	1,034,565
	Central Artery	
	Statewide Roads and Bridges	43
	Other Governmental Funds	600,396
	Highway	595
	Debt Service*	858,432
		807,102
		249,587
	Central Artery	
Statewide Roads and Bridges	Highway 33,161	
Other governmental funds	General 689,836	
	Highway 6,913	
	Central Artery	
	Statewide Roads and Bridges 40,001	
	Other Governmental Funds <u>770,286</u>	
Total governmental funds		<u>5,149,483</u>
Business - Type Activities		
General Fund	University of Massachusetts	51,465
	State Colleges	14,015
	Community Colleges	14,644
University of Massachusetts	General Fund	544,012
	Other Governmental Funds	21,005
State Colleges	General Fund	238,180
	Other Governmental Funds	10,199
Community Colleges	General Fund	273,496
	Other Governmental Funds	<u>15,552</u>
Total business - type activities (net)		<u>1,022,320</u>
Total transfers		<u>\$ 6,171,803</u>

*Transfers for debt service are net of amounts funded in escrows for crossover refunding debt.

Remaining receivables and payables between funds as of June 30, 2006 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2006. The following is a summary of receivables and payables between funds remaining as of June 30, 2006:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Funds:		
General	Highway Fund	\$ 1,066,511
	Nonmajor Governmental Funds	508,785
Central Artery Statewide Roads and Bridges Fund	General Fund	111,960
Nonmajor Governmental Funds	General Fund	50,286
Nonmajor Governmental Funds	Nonmajor Governmental Fund	64,910
Total Governmental Funds		\$ 1,802,452
Proprietary Funds:		
University of Massachusetts		11,009
Total amounts due		\$ 1,813,461

Central Artery / Tunnel Project

The Commonwealth is in the final stages of completion in the most expensive public construction project in the history of the United States, the Central Artery / Tunnel Project (CA/T or Project). The project depressed the Central Artery (Interstate 93) through downtown Boston and connected the Massachusetts Turnpike (Interstate 90) through a tunnel under Boston Harbor directly to Logan International Airport. In addition to Commonwealth debt and funds from the Federal Government, the MTA (a component unit) and Massport (a related organization) have contributed to the costs of construction. Once completed, the assets of the project will be transferred to these entities for operations and maintenance pursuant to the provisions of Chapter 81A of Massachusetts General Laws.

The Commonwealth has recorded as assets the Commonwealth's construction cost to date for the Central Artery / Tunnel Project, net of amounts transferred to the MTA and Massport. This amount is reflected as "Construction in Process – Central Artery / Tunnel Project". This amount is offset by two corresponding liabilities: "Due to Component Units – Central Artery / Tunnel Project" in the Statement of Net Assets for the MTA's portion and "Due to Other Related Organizations" for Massport's portion. As portions of the project are completed and transferred to either the MTA or Massport in accordance with Massachusetts General Laws, Chapter 81A, these amounts will be reduced for the value of the assets transferred.

The following summarizes the activity for the CA/T for FY06:

Total Project budget as of June 30, 2006	\$ 14,625,000
Determination of Amounts Payable:	
Cumulative authorized project invoices as of June 30, 2006	\$ 14,206,184
Less: Amounts to be transferred to Massport as of December 31, 2005	(365,000)
Less: Amounts transferred previous to December 31, 2005 to MTA and recognized as assets by MTA.....	(1,716,660)
Less: Amounts transferred to other entities.....	(20,949)
Subtotal - Due to Component Units - Central Artery / Tunnel project as of June 30, 2006.....	12,103,575
Less: Reduction of payable due to accumulated depreciation of assets in use to be transferred.....	(777,100)
Due to Component Units - Central Artery / Tunnel Project as of June 30, 2006	\$ 11,326,475
Reconciliation of Central Artery / Tunnel Fixed Assets to Assets to Due to Component Units - Central Artery / Tunnel Project as of June 30, 2006:	
Determination of Assets in Use:	
Infrastructure - Central Artery / Tunnel Project.....	\$ 11,870,964
Less: Accumulated depreciation of infrastructure assets in use to be transferred.....	(777,100)
Net book value of Infrastructure - Central Artery / Tunnel Project.....	11,093,864
Land - Central Artery / Tunnel Project.....	463,867
Net book value of Central Artery / Tunnel Project Assets in use to be transferred.....	11,557,731
Construction in process - Central Artery / Tunnel Project.....	133,744
Subtotal.....	11,691,475
Less: Due to related organizations (Massport)	(365,000)
Due to Component Units - Central Artery / Tunnel Project as of June 30, 2006	\$ 11,326,475

6. FIXED ASSETS

Capital asset activities for the fiscal year ended June 30, 2006 are as follows:

<i>Primary Government Governmental Activities</i>	July 1, 2005 Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	June 30, 2006 Ending <u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 707,283	\$ 21,346	\$ 212	\$ 728,417
Land Central Artery / Tunnel Project	459,479	4,388	-	463,867
Construction in process - non - Central Artery / Tunnel Project	1,311,728	485,447	107,678	1,689,497
Construction in process - Central Artery / Tunnel Project	<u>350,247</u>	<u>-</u>	<u>216,504</u>	<u>133,743</u>
Total capital assets not being depreciated	2,828,737	511,181	324,394	3,015,524
Capital assets being depreciated:				
Buildings	3,731,708	140,783	18,539	3,853,952
Machinery and equipment	785,510	65,689	57,865	793,334
Infrastructure non - Central Artery / Tunnel Project	10,924,434	42,015	6	10,966,443
Infrastructure - Central Artery / Tunnel Project	<u>11,324,918</u>	<u>546,046</u>	<u>-</u>	<u>11,870,964</u>
Total capital assets being depreciated	26,766,570	794,533	76,410	27,484,693
Less, accumulated depreciation:				
Buildings	(1,788,024)	(64,942)	(8,837)	(1,844,129)
Machinery and equipment	(544,481)	(76,727)	(45,717)	(575,491)
Infrastructure non - Central Artery / Tunnel Project	(4,549,301)	(257,028)	-	(4,806,329)
Infrastructure - Central Artery / Tunnel Project	<u>(493,977)</u>	<u>(283,123)</u>	<u>-</u>	<u>(777,100)</u>
Total accumulated depreciation	<u>(7,375,783)</u>	<u>(681,820)</u>	<u>(54,554)</u>	<u>(8,003,049)</u>
Total capital assets being depreciated, net	<u>19,390,787</u>	<u>112,713</u>	<u>21,856</u>	<u>19,481,644</u>
Governmental activity capital assets, net	<u>\$ 22,219,524</u>	<u>\$ 623,894</u>	<u>\$ 346,250</u>	<u>\$ 22,497,168</u>
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land	\$ 62,033	\$ 2,438	\$ 56	\$ 64,415
Construction in process	449,722	276,853	287,193	439,382
Historical treasures	<u>729</u>	<u>465</u>	<u>-</u>	<u>1,194</u>
Total capital assets not being depreciated	512,484	279,756	287,249	504,991
Capital assets being depreciated:				
Buildings	2,771,266	316,370	(42,463)	3,130,099
Machinery and equipment	745,358	74,545	30,456	789,447
Library collections, not including historical treasures	<u>125,680</u>	<u>9,511</u>	<u>7,422</u>	<u>127,769</u>
Total capital assets being depreciated	3,642,304	400,426	(4,585)	4,047,315
Less, accumulated depreciation:				
Buildings	(1,485,557)	(124,867)	(18,000)	(1,592,424)
Machinery and Equipment	(474,511)	(48,535)	(10,362)	(512,684)
Library collections, not including historical treasures	<u>(20,659)</u>	<u>(2,237)</u>	<u>(779)</u>	<u>(22,117)</u>
Total accumulated depreciation	<u>(1,980,727)</u>	<u>(175,639)</u>	<u>(29,141)</u>	<u>(2,127,225)</u>
Total capital assets being depreciated, net	<u>1,661,577</u>	<u>224,787</u>	<u>(33,726)</u>	<u>1,920,090</u>
Business - type activity capital assets, net	<u>\$ 2,174,061</u>	<u>\$ 504,543</u>	<u>\$ 253,523</u>	<u>\$ 2,425,081</u>
Total Primary Government capital assets, net	<u>\$ 24,393,585</u>	<u>\$ 1,128,437</u>	<u>\$ 599,773</u>	<u>\$ 24,922,249</u>

Depreciation expense was charged to the various functions of governmental activities as follows:

<u>Function:</u>	<u>Amount</u>
General government.....	\$ 55,984
Judiciary.....	-
Group health insurance.....	
Public assistance.....	
Pension.....	
Environmental and recreation.....	8,426
Housing and community development.....	2,709
Health and human services.....	22,123
Transportation and construction.....	550,712
Education.....	7
Public safety and homeland security.....	41,859
Economic development.....	-
Total depreciation expensed.....	681,820
Less: Amount recognized as an offset to depreciation to equalize the payable to component units and non - component units related to the Central Artery / Tunnel Project.....	(283,123)
Depreciation charged to governmental activities.....	<u>\$ 398,697</u>

Increases to accumulated depreciation differ from depreciation expense as shown on the statement of activities due to the reduction of the payable to net book value of "Due to component unit – Central Artery / Tunnel Project," which is presented as an adjustment to depreciation expense so that the value of the untransferred assets and the amount due to the Turnpike Authority and to Massport always equal.

Discretely Presented Component Units – Fixed assets consist of the following at June 30, 2006:

<i>Discretely Presented Component Units</i>	July 1, 2005 Beginning Balance	Increases	Decreases	June 30, 2006 Ending Balance
Capital assets not being depreciated:				
Land	\$ 547,924	\$ 8,295	\$ 32	\$ 556,187
Construction in process	<u>1,179,514</u>	<u>618,102</u>	<u>741,639</u>	<u>1,055,977</u>
Total capital assets not being depreciated	1,727,438	626,397	741,671	1,612,164
Capital assets being depreciated:				
Buildings	9,125,484	570,239	14,152	9,681,571
Machinery and equipment	2,561,289	197,100	95,574	2,662,815
Infrastructure	<u>2,365,796</u>	<u>2,143</u>	<u>460</u>	<u>2,367,479</u>
Total capital assets being depreciated	14,052,569	769,482	110,186	14,711,865
Less, accumulated depreciation.....	<u>(4,575,341)</u>	<u>(435,078)</u>	<u>(109,105)</u>	<u>(4,901,314)</u>
Total capital assets being depreciated, net	<u>9,477,228</u>	<u>334,404</u>	<u>1,081</u>	<u>9,810,551</u>
Discretely Presented Component Unit capital assets, net	<u>\$ 11,204,666</u>	<u>\$ 960,801</u>	<u>\$ 742,752</u>	<u>\$ 11,422,715</u>

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified as a fund liability. Short-term debt may be issued on either a stand-alone basis or through a commercial paper program maintained by the Commonwealth.

A. General Fund

During FY06, the Commonwealth issued RANs through its commercial paper program on a periodic basis to meet cash flow needs. The balance of revenue anticipation notes (RANs) outstanding may fluctuate during a fiscal year, but must be reduced to zero at June 30. A maximum of \$400,000,000 of RANs were outstanding at any time during the year. All RANs were retired before the end of June 2006.

B. Capital Projects Funds

The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects. BANs may be issued either on a stand-alone basis or through the Commonwealth's commercial paper program.

Beginning in FY02 and continuing through FY06, the Commonwealth periodically issued BANs through the commercial paper program. BANs were rolled over and paid down at various times during the fiscal year. No more than \$493,100,000 of BANs were outstanding under the commercial paper program at any time during FY06. At June 30, 2006, BANs totaling \$25,100,000 remain outstanding.

On March 28, 2002, \$180,000,000 in General Obligation BANs were also issued to finance costs of the Central Artery / Tunnel Project, in advance of receiving certain contributions from Massport. The majority of these BANs were retired prior to FY2006. These remaining BANs are a component of the BANs activity described above.

On December 31, 2003, Massport was expected to make an additional payment to the Commonwealth under the Transfer Agreement of \$50,000,000. This payment was received and applied in August of 2006, leaving the remaining balance of BANs of \$25,100,000 noted above. A final payment of \$50,000,000 was due on December 31, 2004 under the Transfer Agreement only to the extent that Massport has received assets of commensurate value. Massport has informed the Commonwealth that such assets have not been received and that Massport therefore will withhold the final payment until such assets are transferred. Massport and the Commonwealth have not agreed on a scheduled date of payment.

C. Line-of-Credit Facilities

During FY06, the Commonwealth maintained line-of-credit facilities to provide liquidity support for commercial paper notes totaling \$1,000,000,000. The Commonwealth has a total of five line-of-credit facilities to provide such liquidity support, each in the amount of \$200,000,000. These facilities expire in periods from September 2006, through November 2015 at various times, with an optional termination at January 2010 or January 2015.

The following schedule details short – term financing and credit agreement activity, net, for all funds for the fiscal year:

	Beginning Balance July 1, 2005	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2006	Credit Limit June 30, 2006
General Fund:					
Revenue anticipation notes.....	\$ -	\$ 400,000	\$ (400,000)	\$ -	\$ -
Line-of-credit agreements.....	-	-	-	-	1,000,000
Subtotal - General Fund activity.....	-	400,000	(400,000)	-	1,000,000
Capital Projects Funds:					
Bond anticipation notes.....	140,100	403,000	(518,000)	25,100	-
Subtotal - Capital Projects Funds activity.....	140,100	403,000	(518,000)	25,100	-
Total short-term financing and credit agreement activity.....	<u>\$ 140,100</u>	<u>\$ 803,000</u>	<u>\$ (918,000)</u>	<u>\$ 25,100</u>	<u>\$ 1,000,000</u>

As of June 30, 2006 no major component units had short – term debt outstanding.

8. LONG-TERM OBLIGATIONS

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit to another entity by a two-thirds vote of the members of each house of the Legislature. The Legislature may not in any manner allow the Commonwealth credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 2006, the Commonwealth had two types of long-term debt outstanding, general obligation bonds and special obligation bonds. The following is a summary of the Commonwealth's debt outstanding by type of debt:

	Amount Outstanding
<u>General Obligation Debt:</u>	
General Obligation Bonds:	
Fixed rate.....	\$ 12,455,736
Variable rate.....	2,546,550
Auction rate securities.....	401,500
College opportunity bonds.....	89,058
County debt assumed.....	525
Grant anticipation notes (inclusive of cross-over refunding notes).....	1,789,445
Discount / (Premium) and issuance cost, general obligations.....	<u>(100,482)</u>
Subtotal - General Obligation Debt.....	17,182,332
<u>Special Obligation Debt:</u>	
Special Obligation Bonds (inclusive of cross-over refunding bonds):	
Fixed rate.....	1,108,185
Variable rate.....	<u>183,080</u>
Subtotal - Special Obligation Debt.....	1,291,265
Discount / (Premium) and issuance cost, special obligations.....	<u>(12,191)</u>
Governmental Activities Outstanding Debt.....	18,461,406
MSBA debt.....	2,500,000
Premium on MSBA debt.....	<u>167,414</u>
Total Outstanding Debt.....	\$ 21,128,820

A. General Obligation Bonds

General Obligation Bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and Commonwealth supported local government improvements. They are backed by the full faith and credit of the

Commonwealth and paid from the Governmental Funds, from which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

In FY06, the Commonwealth sold \$500,000,000 in General Obligation Bonds to finish the capitalization of the Massachusetts School Modernization and Reconstruction Trust (SMART). The proceeds of the debt (the final half of the total authorization of \$1 billion,) were used to fund school construction projects throughout the Commonwealth pursuant to changes in the funding of school building assistance initiated during FY05.

In addition, forms of general obligation bonds are issued for specific programs approved by the Legislature. These are as follows:

Some Commonwealth general obligation debt is issued in the form of College Opportunity Bonds (COBs) as authorized by the Massachusetts General Laws. These bonds are sold to fund the Commonwealth's "U. Plan" which is part of a college savings program administered by the Massachusetts Educational Financing Authority. These bonds are privately placed and are structured to meet the needs of investors in this plan. Such bonds were initially issued in fiscal year 1996, and have been issued in each subsequent fiscal year, including

FY06, during which approximately \$11,581,000, (including accretion), of such bonds were issued. Outstanding COBs of approximately \$89,058,000 have maturity dates ranging from FY07 through FY26. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COB's maturity is a variable rate equal to the annual change in the Consumer Price Index (CPI) plus 2.0%. Assuming the CPI averages 3.5% during the life of the outstanding COBs the payments due at maturities of the COBs will total approximately \$167,902,000, including accretion.

Chapter 38 of the Acts of 1997 and Chapter 300 of the Acts of 1998 abolished governments of several Massachusetts counties on various effective dates. As part of these provisions, the Commonwealth assumed the outstanding debt of Middlesex County on July 1, 1997, of Hampden and Worcester Counties on July 1, 1998, that of Essex County on July 1, 1999 and that of Berkshire County on July 1, 2000. The county debt assumed has become general obligation debt of the Commonwealth. As of June 30, 2006, \$525,000 of these obligations remain outstanding.

Included in the long-term debt is \$2,546,550,000 of general obligation variable rate demand bonds (VRDBs) maturing from 2008 through 2030 in varying amounts, of which \$1,920,960,000 is swapped to fixed rates. The redemption schedule for these bonds is included in the bond redemption schedule contained herein. The interest rate on the VRDBs is determined either weekly or daily based on the activity of the Commonwealth's remarketing agents, and interest is paid monthly. On any reset date, holders of the VRDBs can require the Commonwealth (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any repurchased bonds by adjusting the interest rates offered. The Commonwealth pays an annual fee to the remarketing agents equal to 0.05% of the outstanding par amount of the bonds.

Under the provisions of stand-by bond-purchase agreements entered into by the Commonwealth with certain commercial banks, the remarketing and tender agents are entitled to draw amounts sufficient to pay the purchase price of any bonds that cannot be resold. During any such period, the Commonwealth is required to pay the bank(s) at an interest rate based on their respective prime lending rates. If the remarketing agent is unable to resell any put bonds within six months of the put date, the stand-by bond-purchase agreements include provisions to convert any such bonds to installment loans payable over an extended period of time, with interest payable at a rate based on the bank(s) prime lending rate(s). The stand-by bond-purchase agreements expire on various dates between December of 2007 and December 2015. The Commonwealth is required to renew or replace these agreements as long as the VRDBs remain outstanding.

As detailed in the variable rate debt schedule, found in footnote 8E, these CPI based bonds all have been swapped to fixed rates ranging from 4.45% to 5.25%.

Also included in the long-term debt is \$401,500,000 of General Obligation Auction Rate Securities (ARS) maturing in varying amounts from 2020 through 2030. The interest rate payable on the bonds changes weekly as determined pursuant to specified auction procedures. Interest on the bonds is payable weekly. In the case of a failed auction (i.e., insufficient bids to clear the market) existing buyers may be required to hold their bonds with interest payable at a rate equal to a percentage of an ARS industry index, up to a maximum rate of 12.0%.

Also included in outstanding debt is \$2.5 billion (plus \$160.5 million of unamortized premium) of MSBA Dedicates Sales Tax Bonds sold for the purpose of funding ongoing and future school construction and renovation projects. Interest on the bond ranges from 3% to 5% and is payable semiannually each August 15 and February 15, until maturity in FY31.

B. Special Obligation Bonds

The Commonwealth also issues special obligation revenue bonds as authorized by Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 2006, the Commonwealth had outstanding approximately \$1,291,265,000 of such special obligation bonds, inclusive of unamortized premium. These bonds are secured by a pledge of 6.86 cents of the 21 cent motor fuel excise tax imposed on gasoline.

The Commonwealth has three series' of crossover refunding bonds outstanding, two of which are special obligation bonds while the remaining series are grant anticipation notes. The escrows funded by crossover refunding bonds and related premiums are used only to secure the principal related to the crossover refunding portion. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from the existing stream of motor fuel excise taxes (or in the case of the grant anticipation notes from either federal grants or appropriations). Interest a portion of the newly issued refunding bonds is paid from the proceeds of the escrow until the aforementioned prior bonds are called for redemption. This crossover refunding results in economic savings to the Commonwealth similar to a traditional refunding, but does not meet the accounting definition of a legal defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed from the debt. Accordingly, both the refunded debt and the refunding debt are reported in the statement of net assets until such time as principal amounts are repaid. Similarly, the refunding escrows established with the proceeds from the refunding bonds are also recorded on the financial statements until such proceeds are expended for debt service. As of June 30, 2006, \$103,615,000 from in special obligation crossover refundings remained outstanding, exclusive of the crossover refunded grant anticipation notes.

**C. Federal Highway Grant
Anticipation Notes**

The remainder of unrefunded special obligation debt is attributable to the aforementioned gasoline tax bonds and other bonds that permanently financed the Commonwealth's convention and exhibition centers in Boston, Springfield and Worcester, which are secured by certain taxes collected related to those facilities.

The Commonwealth also issued Federal Highway GANs to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Section 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorizes the Commonwealth to sell up to \$1,500,000,000 in GANs. Prior to FY2006, all GANs authorized were issued. All Federal Highway Construction reimbursements and reimbursements from the federal highway construction trust funds are pledged to the repayment of the GANs. These notes are secured by the pledge of Federal Highway construction reimbursements without a general obligation pledge. Under certain limited circumstances, a portion of the revenue from the Commonwealth's motor fuels excise tax may be used to pay debt service on the GANs.

In July of 2004, the Commonwealth sold \$408,015,000 of GANs crossover refunding notes, Series 2003A. As previously discussed, these notes are Special Obligations of the Commonwealth. The escrow funded by the notes will be used to secure the principal related to \$418,340,000 of GANs, including related call premiums, in previously issued series callable on December 15, 2008 and 2010. Inclusive of the cross-over refunding notes, at June 30, 2006, the Commonwealth has \$1,789,445,000 of GANs outstanding, including accreted interest on capital appreciation bonds with maturity dates ranging from 2007 to 2015.

**D. Interest Rate Swap
Agreements**

The Commonwealth enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

Objective of the Interest Rate Swap Agreements

In connection with the issuance of variable rate refunding bonds in 1997, 1998, 2001, 2003 and 2006, the Commonwealth entered into interest rate swap agreements with certain counterparties. Additional swap agreements were initiated as part of the Convention centers permanent financing in FY2004. The purpose of these agreements is to effectively fix the interest rate payable on the corresponding variable rate refunding bonds, and to achieve synthetic interest rate that is lower than the rate that could have been achieved on a natural fixed rate basis at the time the agreements were entered into.

Terms of the Interest Rate Swap Agreements

The bonds and related swap agreements have final maturities ranging from 2006 to 2028. The swaps' total notional value of \$2,104,040,000 matches the par amount of the related variable rate refunding bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties' fixed rates ranging from 2.78% to 5.25% and receives variable rate payments equal to the amount of variable rate payments the Commonwealth pays on the related variable rate refunding bonds.

The following chart details the Commonwealth's outstanding swaps and related bond issuances:

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid (Range)	Variable Rate Received	Fair Market Values	Final Termination Date	Counterparty Credit Rating
<i>General Obligation Bonds:</i>							
Series 1997B	\$ 162,768	8/12/1997	4.659%	Cost of Funds	\$ (6,681)	August 1, 2015	AA+/Aaa
Series 1997B	108,512	8/12/1997	4.659%	Cost of Funds	(4,439)	August 1, 2015	AAA/Aaa
Series 1998A & B	299,712	9/17/1998	4.174%	Cost of Funds	(7,242)	September 1, 2016	AAA/Aaa
Series 1998A & B	199,808	9/17/1998	4.174%	Cost of Funds	(2,933)	September 1, 2016	AAA/Aaa
Series 2001B & C	496,225	2/20/2001	4.150%	Cost of Funds	(16,966)	January 1, 2021	AAA/Aaa
Series 2003B	87,455	3/12/2003	4.500%	Cost of Funds/CPI	2,223	March 1, 2014	AA+/Aaa
Series 2003B	10,000	3/12/2003	4.500%	Cost of Funds/CPI	248	March 1, 2013	A/A2
Series 2005A	<u>556,480</u>	3/29/2005	2.782% - 4.00%	BMA	<u>24,288</u>	February 1, 2028	AA-/Aa2
Subtotal	<u>1,920,960</u>				<u>(11,502)</u>		
<i>Special Obligation Dedicated Tax Revenue Bonds (CPI Based Swaps):</i>							
Series 2004	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(1,406)	January 1, 2018	A/A1
Series 2004	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(1,135)	January 1, 2018	A+/Aa3
Series 2004	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(1,324)	January 1, 2018	AA-/Aa2
Series 2005A	<u>96,490</u>	6/12/2005	4.771% - 5.06%	Cost of Funds/CPI	<u>(1,326)</u>	June 1, 2022	AA-/Aa3
Subtotal	<u>183,080</u>				<u>(5,191)</u>		
Total	<u>\$ 2,104,040</u>				<u>\$ (16,693)</u>		

Fair Market Value of the Interest Rate Swap Agreements

Swap rates for the types and remaining terms of the Commonwealth's swap agreements are generally lower (as of June 30, 2006) than those that prevailed when the various swap contracts were entered into. This is the result of two factors: (1) lower interest rates in general; and (2) the shortening of the remaining terms of the swap contracts due to the passage of time and an upward sloping yield curve for such instruments. As a result, the Commonwealth's swap agreements have an estimated fair market value of negative \$16,693,000 as of June 30, 2006. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2006 the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the magnitude estimated if certain termination events occurred, as described below.

Credit Risk of the Interest Rate Swap Agreements

The swap contracts require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth could choose to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain a certain credit rating under the agreements, generally in the "A" category. If the Commonwealth's rating fell below those levels, the Commonwealth's counterparties could choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as noted below.

Basis, Market and Rollover Risk of the Interest Rate Swap Agreements

Because the terms on the interest rate swap agreements require the Commonwealth's counterparties to make variable rate payments equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not generally subject to any basis or market risk as a result of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds or the enactment of tax-related legislation which causes the related bonds to trade differently, the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the BMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied significantly from the variable rates that were determined for the Commonwealth's variable rate demand bonds through the associated remarketing process.

The swap contracts have the same maturity dates and amortizations as the related bonds. Therefore, the Commonwealth is not subject to any rollover risk as a result of these agreements.

Termination Risk of the Interest Rate Swap Agreements

The swap contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. If one or more of the swap agreements were terminated, then related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values.

E. Outstanding Debt

Debt service on the variable rate bonds is as follows (assuming a short term rate of 3.50% and a CPI rate of 3%):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	\$ 3,745	\$ 72,195	\$ 16,568	\$ 92,508
2008	6,190	72,001	16,582	94,773
2009	12,030	71,694	16,585	100,309
2010	34,545	70,622	16,454	121,621
2011	22,265	69,737	16,324	108,326
2012-2016	947,080	269,504	59,994	1,276,578
2017-2021	716,455	123,810	22,244	862,509
2022-2026	265,435	36,145	5,184	306,764
2027-2031	96,295	19,375	316	115,986
Total	<u>\$ 2,104,040</u>	<u>\$ 805,083</u>	<u>\$ 170,251</u>	<u>\$ 3,079,374</u>

For financial reporting purposes, long-term debt is carried at its face value, which includes discount and any issuance costs. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid.

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (including unamortized discount and issuance cost) and debt authorized and unissued at June 30, 2006 is as follows:

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs.....	\$ 1,789,445	2007-2015	\$ -
Capital projects:			
General.....	5,953,511	2007-2031	4,063,349
Highway.....	8,087,687	2007-2034	3,479,189
Local aid.....	1,935,416	2007-2031	37,208
Other.....	695,347	2007-2029	88,585
	<u>16,671,961</u>		<u>7,668,331</u>
Total primary government.....	<u>18,461,406</u>		<u>\$ 7,668,331</u>
MSBA debt.....	<u>2,667,414</u>		
Total outstanding debt.....	<u>\$ 21,128,820</u>		

Interest rates on the Commonwealth's debt outstanding at the end of FY06 ranged from 0.0% to 8.0%.

Changes in long-term debt outstanding (including discount and issuance cost) and bonds authorized - unissued for the year ended June 30, 2006 are as follows:

	Bonds Outstanding	Authorized and Unissued
Balance July 1, 2005.....	\$ 17,856,799	\$ 9,506,821
General and special obligation bonds:		
Principal, less discount and issuance costs.....	1,838,490	(1,838,490)
Net premium and issuance costs.....	(68,144)	-
General and special obligation refunding bonds:		
Principal on refunding bonds.....	527,635	-
Principal on refunded bonds.....	(672,100)	-
Retired premium on refunded bonds.....	3,250	-
Bonds retired.....	(1,024,524)	-
Primary government June 30, 2006.....	<u>18,461,406</u>	<u>\$ 7,668,331</u>
MSBA debt issued.....	2,500,000	
Premium on MSBA debt.....	<u>167,414</u>	
Balance June 30, 2006.....	<u><u>\$ 21,128,820</u></u>	

Business Type Activities – Colleges and University Debt

Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$200,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2006, debt service requirements to maturity for principal (including unamortized discount, capital appreciation and issuance costs) and interest including all variable rate interest not hedged by swap agreements (assumed interest rate is 5%) are as follows:

Fiscal Year Ended June 30	<u>Governmental Activities</u>				<u>Business - Type Activities</u>	
	<u>General Obligation</u>		<u>MSBA Debt</u>		<u>Revenue Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007.....	\$ 1,180,458	\$ 909,764	\$ 56,177	\$ 120,596	\$ 38,182	\$ 65,803
2008.....	1,145,660	852,110	51,145	118,704	47,741	63,888
2009.....	1,181,030	794,109	53,175	116,671	49,681	61,969
20010.....	1,130,032	734,258	55,390	114,456	51,769	59,904
2011.....	1,201,126	672,706	57,795	112,054	54,846	58,182
2012 - 2016.....	5,444,699	2,488,485	332,820	516,419	302,618	246,270
2017 - 2021.....	3,778,241	1,359,598	425,540	423,697	316,950	187,384
2022 - 2026.....	2,232,780	539,051	546,185	303,057	279,696	137,450
2027 - 2031.....	1,024,545	186,540	1,089,187	142,291	242,195	81,297
2032 - 2036.....	142,835	16,000	-	-	136,049	36,900
Total long - term debt	18,461,406	8,552,621	2,667,414	1,967,945	1,519,727	999,047
Less: Current Portion	(1,180,458)	(909,764)	(56,177)	(120,596)	(38,182)	(65,803)
Long - term debt	<u>\$ 17,280,948</u>	<u>\$ 7,642,857</u>	<u>\$ 2,611,237</u>	<u>\$ 1,847,349</u>	<u>\$ 1,481,545</u>	<u>\$ 933,244</u>

The Commonwealth issued bonds and notes through both competitive and negotiated sales during FY06. The costs for legal counsel and underwriting fees for bond sales were \$363,000 and \$8,124,000 respectively. In addition, the Commonwealth paid \$146,000 for disclosure counsel services.

**F. Bonds Defeased
Through Refunding**

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general and special obligation bonds through the issuance of \$527,635,000 of special obligation refunding bonds, during FY06. Net proceeds, including premiums, but after issuance costs totaled approximately \$626,120,000 which were used to purchase U.S. Government and U.S. Government Agency securities, which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the statement of net assets. As a result of this refunding, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$89,400,000 over the next 28 years and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$47,319,000. At June 30, 2006, approximately all of the bonds defeased and refunded during FY2006 remain outstanding.

G. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. With the exception of the crossover refunding activity discussed previously, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2006, approximately \$7,966,326,000 of defeased bonds remain outstanding.

H. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth’s ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY06 was approximately \$14,136,712,000. Outstanding debt subject to the limit at June 30, 2006 was approximately \$12,599,293,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows:

	<u>Debt Outstanding</u>
Balance June 30, 2006.....	\$ 18,461,406
Less amounts excluded:	
Premium and issuance cost.....	112,673
Special Obligation principal.....	(1,291,266)
GANs principal.....	(1,789,876)
County Debt Assumed.....	(525)
MBTA	(416,830)
SMART bonds.....	(1,000,002)
Central Artery / Tunnel.....	<u>(1,476,287)</u>
Outstanding direct debt.....	<u>\$ 12,599,293</u>

**I. Changes in Long –
Term Liabilities**

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended June 30, 2006, the following changes occurred in liabilities reported as part of the long-term liabilities in the statement of net assets:

<i>Primary Government Governmental Activities</i>	Interest Rates	Maturity Through	July 1, 2005 Beginning Balance	Increases	Decreases	June 30, 2006 Ending Balance	Due Within One Year	Long -Term Portion
Long - term debt:								
General obligation bonds	0.00 - 8.00%	2031	\$ 14,534,173	\$ 1,838,490	\$ 879,537	\$ 15,493,126	\$ 1,029,555	\$ 14,463,571
Special obligation bonds	4.00 - 5.50%	2034	1,485,548	527,635	721,917	1,291,266	30,325	1,260,941
Grant anticipation notes	0.00 - 7.00%	2015	1,908,015	-	118,139	1,789,876	123,185	1,666,691
Unamortized (premiums) / discounts:								
General obligation bonds			(33,086)	(68,627)	(1,473)	(100,240)	(3,247)	(96,993)
Special obligation bonds			(37,176)	21,735	(3,250)	(12,191)	-	-
Grant anticipation notes			(675)	-	(244)	(431)	640	(1,071)
Subtotal long - term debt			17,856,799	2,319,233	1,714,626	18,461,406	1,180,458	17,280,948
Other long - term liabilities:								
Due to Component Units - Central Artery / Tunnel Project.....			11,275,667	333,931	283,123	11,326,475	-	11,326,475
Due to related organizations.....			365,000	-	-	365,000	-	365,000
Contract assistance payable.....			341,500	343,336	341,500	343,336	-	343,336
Prizes payable.....			1,437,489	1,429,952	1,437,489	1,429,952	-	1,429,952
Other liabilities.....			647,296	1,144,093	647,296	1,144,093	-	1,144,093
Subtotal other long - term liabilities.....			14,066,952	3,251,312	2,709,408	14,608,856	-	14,608,856
MSBA Changes in Long Term Obligations:								
School construction grants payable			7,015,136	1,468,085	2,225,653	6,257,568	1,935,819	4,321,749
Long term debt	3.00 - 5.00%	2031	-	2,667,414	-	2,667,414	56,177	2,611,237
Net long - term debt			7,015,136	4,135,499	2,225,653	8,924,982	1,991,996	6,932,986
Compensated absences			66	148	78	136	65	71
Subtotal, MSBA.....			7,015,202	4,135,647	2,225,731	8,925,118	1,992,061	6,933,057
Governmental activities liabilities			38,938,953	9,706,192	6,649,765	41,995,380	3,172,519	38,822,861
Business - Type Activities								
Long - term debt:								
Revenue obligation debt	0.0 - 7.2%	2043	1,421,557	595,319	497,149	1,519,727	38,182	1,481,545
Other long - term liabilities:								
Compensated absences			147,492	26,761	19,913	154,340	101,542	52,798
Capital lease obligations.....			101,596	5,814	19,612	87,798	19,062	68,736
Other liabilities.....			87,928	29,722	31,054	86,596	-	86,596
Subtotal other long - term liabilities.....			337,016	62,297	70,579	328,734	120,604	208,130
Business type activities liabilities			1,758,573	657,616	567,728	1,848,461	158,786	1,689,675
Total Primary Government noncurrent liabilities			\$ 40,697,526	\$ 10,363,808	\$ 7,217,493	\$ 43,843,841	\$ 3,331,305	\$ 40,512,536

Discretely Presented Component Units – Bonds and notes outstanding at June 30, 2006 (December 31, 2005 for MTA), net of unamortized discounts and premiums, along with unamortized losses on refundings of approximately \$93,098,000, are as follows:

<i>Discretely Presented Component Units</i>			July 1, 2005			June 30, 2006	Due	Due
			Beginning	Increases	Decreases	Ending	Within	Within
			Balance			Balance	One Year	One Year
Major component units:								
MBTA	2.00 - 7.00%	2006-2035	\$ 4,578,542	\$ 1,086,619	\$ 506,478	\$ 5,158,683	\$ 149,415	\$ 149,415
MTA	3.90 - 5.65%	2006-2039	2,374,933	-	14,984	2,359,949	19,890	19,890
MWPAT	3.00 - 6.375%	2006-2030	2,613,921	304,069	113,832	2,804,158	122,045	122,045
Nonmajor component units	1.00 - 9.01%	2006-2034	899,725	99,106	74,591	924,240	34,050	34,050
Subtotal bonds payable			10,467,121	1,489,794	709,885	11,247,030	325,400	325,400
Compensated absences			26,811	18,449	17,261	27,999	20,333	20,333
Total Component Units Long Term Obligations			<u>\$ 10,493,932</u>	<u>\$ 1,508,243</u>	<u>\$ 727,146</u>	<u>\$ 11,275,029</u>	<u>\$ 345,733</u>	<u>\$ 345,733</u>

The amounts below represent the gross face amounts of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the financial statements. Maturities of principal and interest are as follows (as of December 31, 2005 for MTA) :

Fiscal Year Ended June 30,	Massachusetts Bay Transportation Authority		Massachusetts Turnpike Authority		Massachusetts Water Pollution Abatement Trust		Nonmajor Component Units		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007.....	\$ 149,415	\$ 262,098	\$ 19,890	\$ 117,009	\$ 122,045	\$ 136,701	\$ 34,050	\$ 42,126	\$ 325,400	\$ 557,934
2008.....	140,915	262,110	20,555	115,927	129,955	128,264	23,823	41,461	315,248	547,762
2009.....	159,345	254,040	21,620	114,770	131,735	122,481	20,626	40,348	333,326	531,639
2010.....	189,080	245,007	247,195	535,195	135,340	116,439	24,218	39,477	595,833	936,118
2011.....	192,435	234,821	279,580	536,827	138,320	110,159	21,130	38,169	631,465	919,976
2012 - 2016.....	1,031,685	1,009,616	355,771	581,908	713,500	452,253	337,426	157,201	2,438,382	2,200,978
2017 - 2021.....	1,080,935	719,971	299,359	497,061	669,275	264,766	118,866	129,134	2,168,435	1,610,932
2022 - 2026.....	1,003,330	438,001	124,013	262,998	432,280	117,153	136,520	92,596	1,696,143	910,748
2027 - 2031.....	781,545	202,070	946,285	108,859	182,790	41,815	161,540	66,339	2,072,160	419,083
2032 - 2036.....	413,960	44,853	142,000	-	76,880	6,973	49,874	3,412	682,714	55,238
Total long - term debt*.....	5,142,645	3,672,587	2,456,268	2,870,554	2,732,120	1,497,004	928,073	650,263	11,259,106	8,690,408
Current portion*.....	(149,415)	(262,098)	(19,890)	(117,009)	(122,045)	(136,701)	(34,050)	(42,126)	(325,400)	(557,934)
Long - term debt*.....	<u>\$ 4,993,230</u>	<u>\$ 3,410,489</u>	<u>\$ 2,436,378</u>	<u>\$ 2,753,545</u>	<u>\$ 2,610,075</u>	<u>\$ 1,360,303</u>	<u>\$ 894,023</u>	<u>\$ 608,137</u>	<u>\$ 10,933,706</u>	<u>\$ 8,132,474</u>

* Does not include certificates of participation described below.

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2006, approximately \$1,908,410,000 of these bonds outstanding are considered defeased.

During FY06, the MBTA sold 3 refunding series' of bonds, 2005B, 2006A and 2006B. Series 2006B will be delivered in December 2006. Aggregate amounts refunded were \$575,160,000 from bonds sold in 1997, 2002 and 2004. Total differences in cash flows between prior and future debt service was \$90,644,000, yielding a net present value or economic gain on refunding in the aggregate of \$54,506,000. Series 2006B also contains a swap termination payment of \$5,675,000.

In FY06 and prior years, the MWPAT defeased in-substance ten series' of Loan Program Bonds similarly to the MBTA. On June 30, 2006, approximately \$1,021,350,000 of these bonds outstanding are considered defeased.

Interest Rate Swap Agreements – Discretely Presented Component Units

The MBTA has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps) in order to lower its cost of capital, protect against rising interest rates, lock in rate savings and to realize refinancing savings according to schedules that suit the Component Units' needs. When the Component Unit has entered into Swaps, it has done so in order to: (1) provide lower costs fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long – term fixed rate returns on invested assets in its required reserve funds; and (3) create synthetic refinancing with cash flow savings realized as the Component Unit designates.

Summary of Swap Transactions by Category – Synthetic Fixed Rate Swap Transactions

From FY00 through FY02, MBTA executed swap agreements, associated with particular series of bonds. On one of the agreements, the MBTA will receive a \$4,338,000 payment for the counterparty, due in FY07. The transactions are summarized as follows:

<u>Fixed Rate Paid</u>	<u>Variable Receive Rate</u>	<u>Component Unit</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Fair Value</u>
5.00%.....	67% of Libor	MBTA	\$ 188,000	July, 2001	2030	\$ (23,835)
5.20%.....	BMA	MBTA	87,805	December, 2001	2022	(2,928)
4.13%.....	CPI+79bps.	MBTA	<u>25,005</u>	February, 2004	2020	<u>(623)</u>
			<u>\$ 300,810</u>			<u>\$ (27,386)</u>

Swap Payments and Associated Debt

As of June 30, 2006, debt service requirements on the various bond issuances of the MBTA that have swap payments applied to them were calculated by applying fixed rates ranging from 4.13% to 5.2% and assuming the 67% of the Libor rate was 3.58%, variable rate of 3.96%, using BMA and 2.33% plus 79 basis points for the CPI – based bonds. Debt service related to these swaps is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Variable - Rate Bonds</u>		<u>Interest Rate Swap, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2007	\$ -	\$ 11,243	\$ 3,999	\$ 15,242
2008	-	11,243	3,999	15,242
2009	-	11,243	3,999	15,242
2010	-	11,243	3,999	15,242
2011	-	11,243	3,999	15,242
2012 - 2016	52,655	53,120	18,916	124,691
2017 - 2021	108,250	39,457	14,112	161,819
2022 - 2026	77,390	20,269	7,242	104,901
2027 - 2030	<u>62,515</u>	<u>6,398</u>	<u>2,291</u>	<u>71,204</u>
Total	<u>\$ 300,810</u>	<u>\$ 175,459</u>	<u>\$ 62,556</u>	<u>\$ 538,825</u>

Swaptions for Forward Refundings

In addition, the MBTA has two swaptions generally exercisable from September 2009 through March, 2011 on its variable rate general transportation system bonds. The swaptions are summarized as follows:

<u>Date of Execution</u>	<u>Notional Amount</u>	<u>Lump - Sum Payment From Counterparty</u>	<u>Counterparty Option Exercise Dates</u>	<u>Term of Swap</u>	<u>Associated Bonds</u>	<u>Fixed Payable Swap Rate</u>	<u>Variable Receivable Swap Rate</u>	<u>Counterparty Credit Rating as of June 30, 2006</u>	<u>Fair Value at June 30, 2006</u>
December 2001	\$ 79,645	\$4,140 (August 2005)	Each March and September from 2009 through and including 2011	2030	GTS Bonds, 1999 Series A maturing 2026 and 2030	5.610%	BMA	Aaa / AAA	(8,578)
June 2005	\$ 47,055	N/A	Forward swap, effective commencing April 3, 2010 through July 1, 2030	2030	2000 Series A Assessment Bonds	4.130%	BMA	Aa2 / AA+	1,411
									<u>\$ (7,167)</u>

Asset-Side Swaption for Reserve Investment

<u>Date of Execution</u>	<u>Notional Amount</u>	<u>Lump - Sum Payment From Counterparty</u>	<u>Counterparty Option Exercise Dates</u>	<u>Term of Swap</u>	<u>Associated Bonds</u>	<u>Fixed Payable Swap Rate</u>	<u>Variable Receivable Swap Rate</u>	<u>Counterparty Credit Rating as of June 30, 2006</u>	<u>Fair Value at June 30, 2006</u>
December 2000	\$ 49,123	\$1,265 (July 2001)	January 1st and July 1st from July 2010 through July 2030	2030	Debt Service Reserve Fund for 2000 Assessment and Sales Tax Bonds	5.600%	BMA	Aa2/AA+	\$ (1,986)

Credit Risk

Because all of the MBTA's swaps rely upon the performance of third parties who serve as swap counterparties, both are exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps. All fair values have been calculated using the Mark to Market or Par Value Method. To mitigate credit risk, the MBTA maintains strict credit standards for swap counterparties. For the MBTA, all swap counterparties for both Moody's and Standard & Poors rate longer-term swaps are in the "AA" category. On the MBTA's swap that matures in FY06, the counterparty is rated in the "A" category by both agencies. To further mitigate credit risk, the MBTA's swap documents require counterparties to post collateral for the MBTA's benefit if they are downgraded below a designated threshold.

Basis Risk

The MBTA is exposed to basis risk if the relationship between the floating index the MBTA receives on the swaps (BMA, CPI plus 79 basis points, or 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. As of June 30, 2006, the 67% of LIBOR was 3.58%, while the BMA variable rate was 3.96% and the variable rates on the associated MBTA bonds ranged from 3.5% to 3.8%.

Termination Risk

The MBTA’s swap agreements do not contain any out of the ordinary events that would expose them to significant termination risk. In keeping with market standards, all parties may terminate each swap if the other party fails to perform under the terms of the contract. In addition the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The MBTA views such events to be remote. If at the time of the termination a swap has a negative value, the MBTA would be liable to the counterparty for a payment equal to the fair value of each swap.

Rollover Risk

Only the MBTA’s 2000 series bonds are exposed to rollover risk because the swap for the bonds terminates prior to maturity of the bonds. Upon termination of the swap, the MBTA will no longer realize the synthetic rate on the 2000 bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place.

Market Access Risk and Potential Basis Risk

In the case of the swaptions, if any option is exercised and refunding bonds are not issued, the bonds expected to be refunded would not be refunded and the MBTA would make net swap payments as required by the terms of each contract. If any of the options are exercised, the actual savings ultimately recognized by the transactions will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.

9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type have fund deficits at June 30, 2006. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows:

<u>Fund</u>	<u>Amount</u>
Major governmental funds:	
Highway	\$ 1,034,184
Other governmental funds:	
General Capital Projects.....	321,597
Highway Capital Projects	247,624

10. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

Primary Government

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). The members of the retirement systems do not participate in the Social Security System. The Commonwealth has assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, granted in fiscal years 1981 to 1996. The Commonwealth performs this valuation on an annual basis.

Plan Descriptions

The *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand alone financial report.

The *Teachers' Retirement System* (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity and does not issue a standalone financial report.

The *State – Boston Retirement System* (SBRS) is a hybrid multiple employer defined benefit PERS. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity (SBRS). The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth and is not part of the reporting entity and a stand-alone financial report is not available.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. During the year ended June 30, 2006, the Commonwealth's pension expenditure included payments totaling \$12,170,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

The policy for post-retirement benefit increases for all retirees of the SERS, TRS, BTRS and COLA of local governments is subject to legislative approval.

Membership – Membership in SERS, TRS and SBRS as of January 1, 2006, the date of the most recent valuation, is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries			
currently receiving benefits.....	50,593	44,452	3,314
Terminated employees entitled to			
benefits but not yet receiving them.....	<u>3,033</u>	N/A	<u>178</u>
Subtotal.....	<u>53,626</u>	<u>44,452</u>	<u>3,492</u>
Current employees.....	<u>83,178</u>	<u>88,788</u>	<u>5,810</u>
Total.....	<u><u>136,804</u></u>	<u><u>133,240</u></u>	<u><u>9,302</u></u>

Benefit Provisions

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions is with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Funding and Contributions Progress

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

The Commonwealth was financially responsible for the COLA granted to participants in various retirement systems of cities, towns and counties in fiscal year 1981 to 1997. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity.

The actuarial accrued liability for COLA as of January 1, 2006 was \$433,000,000.

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

A table of Pension Funding Progress is presented as required supplemental information on page 144 of this report.

Member contributions vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975.....	5% of regular compensation
1975 - 1983.....	7% of regular compensation
1984 to 6/30/1996.....	8% of regular compensation
7/1/1996 to present.....	9% of regular compensation except for State Police which is 12% of regular compensation
7/1/2001 to present.....	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present.....	An additional 2% of regular compensation in excess of \$30,000

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary’s direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule.

Schedule of Annual Required Contributions and Calculation Methodology

Under the current schedule adopted in 2004, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023 on a 4.50% increasing basis. The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. Contributions by the Commonwealth of \$1,274,675,000, inclusive of cost of living adjustments, were made during the fiscal year ended June 30, 2006. Of this amount \$63,938,000 represents payments for COLA granted to participants in retirement systems of cities, towns and counties.

GAAP requires that pension expenditures (costs) be based on the actuarially required contribution determined using an acceptable actuarial cost method and that they be not less than:

- Normal cost plus amortization of net pension obligation cost
- Interest and amortization on any unfunded prior service costs

The following table presents the FY2006 annual pension cost components and changes thereon, exclusive of cost of living adjustments:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>	<u>Total</u>
<u>2006</u>				
Annual required contribution.....	\$ 445,527	\$ 779,158	\$ 95,493	\$ 1,320,178
Interest on net pension obligation.....	(18,161)	17,336	10,158	9,333
Adjustment to annual required contribution.....	<u>16,230</u>	<u>(15,493)</u>	<u>(9,078)</u>	<u>(8,341)</u>
Annual pension cost.....	443,596	781,001	96,573	1,321,170
Less: Contributions made, excluding COLAs.....	<u>425,751</u>	<u>727,000</u>	<u>90,000</u>	<u>1,242,751</u>
Increase (decrease) in net pension obligation....	17,845	54,001	6,573	78,419
Net pension obligation / (asset) - beginning of year.....	<u>(220,136)</u>	<u>210,136</u>	<u>123,123</u>	<u>113,123</u>
Net pension obligation / (asset) - end of year.....	<u><u>\$ (202,291)</u></u>	<u><u>\$ 264,137</u></u>	<u><u>\$ 129,696</u></u>	<u><u>\$ 191,542</u></u>
<u>2005</u>				
Annual pension cost.....	\$ 388,634	\$ 701,918	\$ 87,106	\$ 1,177,658
Percentage of annual pension cost contributed.....	107%	97%	99%	100%
Net pension obligation / (asset) - end of year.....	\$ (220,136)	\$ 210,136	\$ 123,123	\$ 113,123
<u>2004</u>				
Annual pension cost.....	\$ 345,348	\$ 609,995	\$ 76,069	\$ 1,031,412
Percentage of annual pension cost contributed.....	71%	57%	60%	63%
Net pension obligation / (asset) - end of year.....	\$ (193,473)	\$ 190,218	\$ 122,017	\$ 118,762

The annual required contribution for 2006 was determined as part of the January 1, 2006 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8.25% investment rate of return, (b) a 3.5% interest rate credited to the annuity savings fund and (c) a 3% cost of living increase per year. Salary increases are based on analyses of past experience but range from 4.75% to 12% depending on group and length of service. The assumptions do not include postretirement benefit increases, which are taken into account when granted under amendments to General Laws. The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased - in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years ago etc, so that 100% of gains and losses occurring five years ago are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 85% and 115% of market value. The remaining amortization period for the unfunded pension liability at January 1, 2006 was 17 years.

Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$328,295,000 for the fiscal year ended June 30, 2006.

There are approximately 53,029 participants eligible to receive benefits at June 30, 2006. In fiscal 2006, the contribution rates are 15% for all employees.

Commonwealth Post Employment Obligations Other Than Pensions – GASB Statement 45

New accounting standards will require the Commonwealth to begin disclosing its liability for other post employment benefits (commonly referred to as "OPEB") in its FY08 financial reports. An initial valuation report by an independent actuarial firm of the Commonwealth's liability for these health care and life insurance benefits was released in June 2006. The report presented two separate calculations of the Commonwealth's OPEB liability, depending on whether the liability would be prefunded in a manner meeting the requirements of GASB Statement No. 45.

According to the report, assuming no prefunding, the actuarial accrued liability of the Commonwealth for OPEB obligations earned through January 1, 2006 is \$13.287 billion. To fully amortize this liability over a 30-year period utilizing an amortization growth rate of 4.5% per year would require annual required contributions commencing at \$1.062 billion for fiscal 2006 and projected to increase to \$2.758 billion in fiscal 2016. However, if prefunding is assumed, the actuarial accrued liability is reduced to \$7.562 billion and the annual required contribution is calculated to commence at \$702.9 million for fiscal 2006, projected to increase to \$1.205 billion for fiscal 2016. The Commonwealth has not yet made any decision on when, how or if it will fund this liability.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the Commonwealth and assumed annual claims growth initially at 10.5% and declining to 5% after ten years and continuation of current benefit levels and current retiree contribution requirements. The report covered only the Commonwealth's OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, will perform their own valuations, as the Commonwealth acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs.

The difference between the value of prefunded and non-prefunded OPEB liabilities is due to the discount rate used in the calculation. In the absence of prefunding, the discount rate must approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5% for the purpose of this study. In the event of prefunding, the discount rate would increase to a standard return on long-term investments, estimated at 8.25% for the purpose of this study. In order to qualify its OPEB liabilities as prefunded, the Commonwealth would have to enact legislation providing for the escrowing of annual contributions in the manner required by GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the Commonwealth enacts legislation that qualifies its OPEB obligations to be calculated on a prefunded basis, by changes in the Commonwealth's employee profile and possibly by changes in OPEB coverage levels and retiree contribution requirements. Accordingly, it should be anticipated that the actuarial accrued liability of the Commonwealth for OPEB liabilities may fluctuate.

A copy of the valuation report discussed can be obtained by calling the Office of the State Comptroller.

11. LEASES

Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms.

The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2006:

Fiscal Year Ended June 30	Governmental Activities			Business - Type Activities				
	Capital Leases		Operating Leases	Governmental Activities Total	Capital Leases		Operating Leases	Business -Type Activities Total
	Principal	Interest			Principal	Interest		
2007	\$ 14,803	\$ 4,184	\$ 141,638	\$ 160,625	\$ 19,062	\$ 3,295	\$ 16,297	\$ 38,654
2008	14,168	4,005	104,884	123,057	17,899	2,511	14,040	34,450
2009	7,158	2,023	75,089	84,270	11,816	1,812	12,599	26,227
2010	7,385	2,087	56,434	65,906	10,531	1,376	11,286	23,193
2011	2,947	835	38,628	42,410	8,551	920	7,719	17,190
2012 - 2016	10,688	3,023	144,939	158,650	19,939	1,321	21,247	42,507
2017 - 2021	9,599	2,715	60,121	-	-	-	762	762
2022 - 2026	7,804	2,207	46,929	-	-	-	-	-
2027 - 2031	-	-	46,732	-	-	-	-	-
2032 - 2035	-	-	18,693	18,693	-	-	-	-
Total lease obligations.....	74,552	21,079	734,087	829,718	87,798	11,235	83,950	182,983
Less: current portion:	(14,803)	(4,184)	(141,638)	(160,625)	(19,062)	(3,295)	(16,297)	(38,654)
Long - term lease obligations	\$ 59,749	\$ 16,895	\$ 592,449	\$ 669,093	\$ 68,736	\$ 7,940	\$ 67,653	\$ 144,329

In addition, the MSBA has engaged in operating leases. In FY07, the MSBA has payments due of \$271,000 and in FY08, \$98,000.

Discretely Presented Component Units –

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 2006:

Fiscal Year Ended <u>June 30</u>	Massachusetts Bay Transportation <u>Authority</u>	Nonmajor <u>Component Units</u>	<u>Total</u>
2007	\$ 49,779	\$ 785	\$ 50,564
2008	124,014	5	124,019
2009	153,118	-	153,118
2010	42,449	-	42,449
2011	81,751	-	81,751
2012 - 2016	350,727	-	350,727
2017 - 2021	<u>150,069</u>	<u>-</u>	<u>150,069</u>
Lease obligations	951,907	790	952,697
Less: Interest portion:	<u>(206,149)</u>	<u>(29)</u>	<u>(206,178)</u>
Present value of minimum lease payments	745,758	761	746,519
Less: current portion	<u>(21,333)</u>	<u>(758)</u>	<u>(22,091)</u>
Long - term lease obligations	<u>\$ 724,425</u>	<u>\$ 3</u>	<u>\$ 724,428</u>

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which has been accounted for as operating leases. These leases expire through fiscal year 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2006. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were approximately \$969,000 of which \$881,000 was paid to the Commonwealth for office space in a state-owned building.

The MTA leases property and air rights to others. The MTA earned approximately \$29,100,000 in rental income of which \$15,900,000 was received for restaurant, concessions and service station rentals.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (as of December 31, 2005 for the MTA):

Fiscal Year Ended <u>June 30</u>	Massachusetts Bay Transportation <u>Authority</u>	Massachusetts Turnpike <u>Authority</u>	Nonmajor <u>Component Units</u>	<u>Total</u>
2007	\$ 17,757	\$ 944	\$ 2,367	\$ 21,068
2008	13,787	-	2,254	16,041
2009	13,515	-	2,273	15,788
2010	13,218	-	2,401	15,619
2011	11,082	-	2,314	13,396
2012 - 2016	16,344	-	3,436	19,780
2017 - 2021	-	-	289	289
2022 - 2026	-	-	74	74
2027 - 2031	-	-	33	33
Total lease obligations	<u>\$ 85,703</u>	<u>\$ 944</u>	<u>\$ 15,441</u>	<u>\$ 102,088</u>

12. COMMITMENTS

A. *Commitments to Discretely Presented Component Units and Other Entities*

The Commonwealth has various streams of dedicated revenues reflected in its activities. Approximately \$2.0 billion in revenues from federal grants passed through the Federal Grants Fund represents the greatest source of dedicated revenues.

The largest pledge of tax revenues apportions a “dedicated sales tax” amounting to 1% of applicable sales in the Commonwealth directly to the MBTA. Total dedicated sales tax revenue directed to the MBTA in FY06 was approximately \$712,586,000. The Commonwealth continues to guarantee certain MBTA outstanding at June 30, 2006, totaling \$1,626,960,000.

In FY06, the legislature began phasing in a second dedication of sales tax revenues. Approximately \$489,000,000 of dedicated sales tax revenue was pledged to fund school construction via a transfer to the MSBA. This amount rises to a minimum of approximately \$557,000,000 or 78% of dedicated 1% sales tax stream, whichever is larger in FY07. In future years these amounts rise further per statute until a full 1% of applicable sales tax is pledged in FY11.

Other major dedicated tax revenue streams include surcharges from areas contiguous to convention centers to support such centers’ operations, motor fuels taxes to support highway construction, repairs and maintenance and cigarette taxation to support health and human service costs.

At June 30, 2006, the Commonwealth had commitments of approximately \$358,799,000 related to ongoing construction projects. As previously noted the Central Artery/Tunnel Project continues to anticipate federal participation and payments from the MTA and the MassPort.

B. *Saltonstall Building*

In addition to the residual obligations of the MBTA, the Commonwealth guarantees debt of a number of Public Authorities. At June 30, 2006, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$1,494,155,000, of which \$680,450,000 is for the Route 3 North Transportation Improvements Association and \$665,700,000 is for the University of Massachusetts Building Authority.

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building and its surrounding area. Under the provisions of MDFA's bond authorization, the building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the building and leases half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the building and surrounding area has been redeveloped as private office space, housing and retail establishments. The Commonwealth is obligated for future lease payments for space it rents. However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA's bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth's lease payments are subject to annual appropriation. Such commitments are reflected in footnote 11.

C. *MSBA Grant Commitments*

The MSBA has estimated the amount of outstanding waiting list commitments at June 30, 2006 to be \$1.1 billion.

D. *Central Artery / Tunnel Project*

The Central Artery / Tunnel Project is the largest single component of the Commonwealth's capital program according to the projects finance plan filed as of October 1, 2004. The current cost estimate is \$14.625 billion, of this amount all but \$419 million has been expended. The plan includes a maximum obligation of \$8.549 billion from the federal government. The finance plan is currently under review.

E. *Pension Trust Funds*

At June 30, 2006, PRIT had outstanding commitments to invest approximately \$2,531,000 in alternative investments and \$150,000 in distressed debt. The fair value of the proposed investment commitments approximates their stated value.

F. *Commitments of Discretely Presented Component Units*

The MBTA's capital investment continuing program for mass transportation development has projects in service and in various stages of approval, planning and implementation. The following table shows, as of June 30, 2006, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

Funding Source	Approved project costs	Expenditures through June 30, 2006	Unexpended costs
Federal grants.....	\$ 5,273,519	\$ 5,149,201	\$ 124,318
State and local sources.....	1,433,260	1,348,620	84,640
Authority bonds.....	<u>4,988,840</u>	<u>4,583,398</u>	<u>405,442</u>
Total.....	<u>\$ 11,695,619</u>	<u>\$ 11,081,219</u>	<u>\$ 614,400</u>

The MBTA is presently authorized by law to issue bonds for capital purposes other than refunding, to an amount not exceeding \$5,256,300 outstanding at any time. Such bonds outstanding as of June 30, 2006 amounted to \$3,330,000,000.

The MBTA has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars and other transportation equipment. Unpaid amounts under these contracts total approximately \$328,268,000 at June 30, 2006.

As of June 30, 2006, the Massachusetts Water Pollution Abatement Trust (MWPAT) has agreed to provide loans of \$64,700,000 to various local government units to be funded with grant awards.

The MTA entered into construction contracts for the Metropolitan Highway system and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 2005 approximated \$6,400,000.

13. CONTINGENCIES

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$30,000,000 to be paid during FY07.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2006 is estimated to be \$316,600,000, of which approximately \$41,160,000 is expected to be paid during FY07.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund, which received the assistance. At June 30, 2006, the

Commonwealth estimated that liabilities, if any, which may result from such audits are not material.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY06 totaled approximately \$158,707,000. Since inception, approximately \$1,651,240,000 has been remitted. A portion of this amount represents a contingency, because claims for refunds can be made by the owners of the property.

A. Tobacco Settlement

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth.

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions, and adjustments.

In FY06, the Commonwealth received approximately \$236,305,000 or 84% of the estimated amounts shown in the MSA. All received amounts were transferred to the General Fund.

This amount is less than had previously been projected and is due to the manufacturers withholding a portion of their expected payment, which was expected to be received by the Commonwealth in fiscal 2006, due to an adjustment they claim they are entitled to for their fiscal 2003 payments. The Commonwealth is pursuing legal action to compel the payment of the additional funds for fiscal 2003, and to obtain a legal determination that the Commonwealth is immune from the claimed downward adjustment to its settlement payments. The tobacco manufacturers have given notice of their intention to seek a reduction in their payment for fiscal 2004, which would affect the Commonwealth in fiscal 2007.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2006, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

B. Workers' Compensation and Group Insurance Liabilities

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full risk

of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30 2006, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling \$316.6 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth’s liability relating to workers’ compensation claims in FY06 were (amounts in millions):

Claim liability, beginning of year.....	\$	312.6
Increase in liability estimate.....		54.4
Payments and decreases in liability estimate.....		<u>(50.4)</u>
Claims liability, end of year.....	\$	<u><u>316.6</u></u>

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth’s active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of \$77.0 million, net of the employees’ reserve of \$20.2 million. Changes in the Commonwealth’s liability relating to Group Insurance claims in FY06 were (amounts in millions):

Claim liability, beginning of year.....	\$	63.9
Increase in liability estimate.....		976.8
Payments and decreases in liability estimate.....		<u>(963.7)</u>
Claims liability, end of year.....	\$	<u><u>77.0</u></u>

C. Central Artery/Tunnel Project

Owner Controlled Insurance Program (OCIP)

The Commonwealth of Massachusetts has assumed responsibility for providing worker’s compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project, (Project) by establishing an OCIP. The Highway Department established a trust managed and administered by an independent third party (trustee) to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The withdrawals, other than those to cover costs specified by the Trust Agreement, require mutual consent. During FY03 federally funded fund assets were replaced by state assets and therefore are no longer restricted as to the ultimate distribution at the end of the Project. The insurance coverage provided by the Commonwealth currently extends through October 31, 2007.

The Project's OCIP activity is reported as a minor governmental (capital project) fund. The "Claims and Judgements" liability reported within the fund represents the Project's liabilities as estimated by an independent actuary for incurred losses projected to their ultimate value as of the end of the fiscal year for FY06. The remaining liability is reported as part of the non-current liability in the statement of net assets.

As of June 30, 2006, the OCIP has accumulated approximately \$145,409,000 in assets that consist of approximately \$87,130,000 in cash and investments, approximately \$7,009,000 in funds held by the trustee of the program, \$11,583,000 in funds are held by the insurance company of the program, approximately \$1,359,000 in interest income receivable and \$ 38,329,000 for non-current investments.. Net assets at year – end of approximately \$114,359,000 were restricted for workers' compensation and general liability claims.

The OCIP's assets are to be available to pay the obligations under the programs. These insurance programs are presently structured as retrospectively rated insurance programs with retained loss limits of \$1,000,000 per claim, \$3,000,000 per occurrence for worker's compensation and \$2,000,000 per contractor, \$6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these amounts.

The estimated Claims and Judgements liability for the OCIP for occurrences through June 30, 2006 is approximately \$85,200,000, of which approximately \$20,800,000 is presented as a governmental fund, while the remaining approximately \$64,400,000 is presented on the statement of net assets. This amount is based on the results of a review performed by an independent actuarial firm retained by the Project, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2006.

Central Artery / Tunnel Project Leaks – Quality Concerns

A series of events have raised concerns relating to the quality of the Project. Water infiltration in the project's tunnels became a focus of public concern following a slurry wall breach on September 15, 2004. Since that date, the MTA and project staff have indicated that the tunnels have been surveyed with respect to causes of breaches and leaks, flaws have been identified, and remedies have been designed and are being implemented, including the repair of flaws in tunnel walls and the sealing of leaks at a large number of tunnel wall and roof interfaces. Amounts spent and anticipated to be spent by the Project for these purposes are expected to fall within the \$14.625 billion project budget. A continuing program to identify and seal leaks will, however, be necessary indefinitely. This program and any additional maintenance and repairs necessitated by continuing infiltration will require higher maintenance costs in the future. In 2004 the MTA estimated that it would assume responsibility for ongoing leak repairs from the project and its contractors in 2007 at an initial cost of \$1.3 million for that year declining to \$156,000 in 2010 and thereafter, without taking account of inflation. An independent evaluation has suggested that, based on current productivity compared with that assumed in the Turnpike Authority's estimate, the cost could be double the amount projected and warns that the estimate is based on experience with the ongoing leak repair program for the Callahan Tunnel, which does not share the slurry wall construction used in the Project. The MTA's current operation and maintenance budget does not specifically include amounts for leak repairs and maintenance.

On July 10, 2006 panels in the ceiling of the eastbound I-90 Connector Tunnel that leads to the Ted Williams Tunnel fell, causing the death of an automobile passenger. State and federal law enforcement officials are investigating this incident. The investigations of the ceiling collapse initially focused on the apparent failure of epoxy anchor bolt assemblies attaching the panels to the roof of the tunnel. Similar epoxy anchor bolt assemblies are in various locations in the remainder of the Connector Tunnel system and various locations elsewhere in the Project. Epoxy anchor bolts are also used in the Ted Williams Tunnel. It also has been discovered that many of the ceiling hanger brackets not attached by epoxy anchor bolts will need to be replaced. These hanger brackets are located in the I-90 connector tunnels and certain ramps leading to and from them. In addition, engineering staff have discovered a need for additional seismic bracing against earthquakes in the Connector Tunnel system, a need to replace additional hanger brackets and a need to replace the epoxy anchor bolts attaching jet fans to the roof of the I-90 connector tunnels with mechanical undercut bolts. Finally, to date, in the course of the I-90 Connector Tunnel inspections, some additional deficiencies involving concrete in two areas of the Connector Tunnel system have been found. These deficiencies may require repair.

On July 14, 2006 the Governor signed into law Chapter 153 of the Acts of 2006, which, among other authorization, appropriated \$20 million for a “comprehensive critical infrastructure safety audit of all tunnels [that are] part of the metropolitan highway system” (MHS), which includes both all the tunnels within the Project and also the pre-existing Sumner and Callahan tunnels. The Governor subsequently issued Executive Order 474 dated August 16, 2006 directing the formation of a safety review team “to conduct an independent, comprehensive critical infrastructure public safety review of the MHS tunnels and facilities” and to give priority to “the most safety critical elements of the MHS tunnels and facilities” in the first phase of its work. The safety review team’s report on the first phase of its review, which covers the Project as well as the ceiling systems in the Sumner, Callahan and Central Artery North Area (CANA) tunnels, is expected to be produced in November 2006.

In addition, Executive Office of Transportation (EOT) and Massachusetts Highway Department (MHD) engineering staff and their consultants are working with the Federal Highway Administration (FHWA) to analyze the connector tunnel ceiling and to make modifications as needed to meet current engineering criteria as agreed to by EOT, MHD, and FHWA. Chapter 153 provided that the I-90 Connector Tunnel not be reopened until approved by the Governor in consultation with EOT. Additional investigations of the accident and related matters are being carried out by the Attorney General, other law enforcement authorities and federal authorities. Ramp A was reopened on August 9, 2006. The reopening of Ramp A allows access to the Ted Williams Tunnel via the South

Boston Bypass Road Ramp C was reopened on September 1, 2006. Ramp C allows access from I-90 Eastbound to South Boston as well as Ramp A to Logan Airport and points north. With the exception of A, C and F, all other elements of the Connector Tunnel are currently closed pending inspections and repair.

Until the events of July 10, 2006, Project management believed that no new developments or information had arisen since its April 2005 update which required an increase of the Project’s \$14.625 billion budget for total project cost. At present, however, it is not known what magnitude of additional safety issues will be identified, when the remainder of the I-90 Connector Tunnel will be

reopened, what the total costs associated with these developments will be, how much of these costs may be recoverable from third parties or how these developments may affect the budget for total project cost currently set at \$14.625 billion.

In addition, Massport, which has agreed to acquire certain portions of the Project consisting of roadways, viaducts and other structures located at Logan International Airport in East Boston, has advised that it is not satisfied with the condition of certain of these facilities and may withhold up to \$20 million of the \$50 million portion of the purchase price that has not already been paid. The MTA reports that, based on its review to date, it believes that not more than a few million dollars of spending is required to address Massport issues that the MTA accepts and that some of this is already scheduled to be done. At present, the issues raised by Massport remain unresolved. It should be noted that this particular dispute will not directly affect Project cash flow, since the Commonwealth advanced the \$50 million to the project several years ago in anticipation of reimbursement by Massport. It is not known what the cumulative financial effect of the issues described above ultimately will be. Nor is it known whether the emergence of these issues is evidence of additional quality issues that, by themselves or in combination with other contingencies, would require project costs exceeding the \$14.625 billion currently budgeted and/or future operating and maintenance costs greater than previously anticipated.

Delay of Federal Funding. The Project finance plans submitted pursuant to this legislation through October 2003 have received the requisite approvals. The most recent plan, was submitted on July 30, 2004. This plan (the 2004 Finance Plan) has not yet received federal approval. Through the federal fiscal year ended September 2006, according to federal records the Project had received obligation authority with respect to all but \$97 million of the federal financial assistance available to the project (other than amounts allocable to principal of federal grant anticipation notes). The remaining \$97 million has not yet been made available pending federal approval of the 2004 Finance Plan. In addition, approximately \$36 million of federal reimbursements for amounts obligated prior to September 30, 2004, but subject to reallocation to different project contracts may not be reallocated until a finance plan is approved. Hence, according to federal records, the total amount of federal funds withheld pending federal approval of the 2004 Finance Plan is approximately \$133 million. In addition, in the absence of an approved finance plan, credits have accumulated by the close of state fiscal year 2006 to increase the amount of federal funds remaining by an amount of \$2.4 million. Until a finance plan is approved, when funds are returned or recaptured and the federal share of funds is credited back to the federal government, freed-up obligation authority cannot be shifted, as it normally would, to fund other expenses. As of September 2006, the Office of the State Comptroller, the Executive Office of Transportation and the Turnpike Authority accounting records have been reconciled to federal records to indicate that a balance of approximately \$136 million is owed to the project.

A question regarding the amount of the remaining federal support for the Project has come to light recently. State records indicated that the state had received federal reimbursements for the project in an amount that is approximately \$8 million less than the amount indicated by federal records. The Commonwealth has reviewed this discrepancy and determined that remaining federal support is approximately \$136 million as noted above.

The cash flow projection in the 2004 Finance Plan and the April 2005 update included \$45 million from "State Interest on MTA Funds." Subsequent review

has found that available interest earnings were actually \$24 million, leaving the source for up to \$21 million to be identified.

Federal review of the 2004 Finance Plan is ongoing. The review is believed to have focused particularly on the costs of dealing with water infiltration and back charges, liquidated damages, cost recovery, self-insurance loss portfolio transfer and project funding. The principal project funding issue was to replace \$94 million that the 2004 Finance Plan projected would be realized from the disposition of the Project headquarters and contiguous parcels at Kneeland Street in Boston. Based on the response in December 2004 to a request for bids for the Kneeland Street property, the MTA is no longer relying on this source of funding. The MTA has identified \$27 million in added interest earnings on the sale proceeds of certain land in Allston as a partial source of funding this amount. The MTA has been seeking to secure the remaining \$67 million from the state's Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (commonly abbreviated as the "TIF"). In addition, the \$8 million and the \$21 million outlined above, which had been accounted for as being or having been available for the Project in the 2004 Finance Plan, would be needed to balance the plan. Final agreement has not been reached regarding the use of additional elements from the TIF and other authorized sources for these purposes.

While the MTA has responded to federal requests for information regarding the 2004 Finance Plan, the funding issue remains unresolved. Furthermore, the effect of any additional costs identified subsequent to the events of July 10, 2006, as discussed above, on federal finance plan approval has not been determined, and it is not known when federal approval can be expected.

When the 2004 Finance Plan was not approved prior to the end of federal fiscal year 2005 (which ended September 30, 2005), the Commonwealth applied the unobligated authority for that year to other eligible transportation projects within the Commonwealth and to payment of principal of the grant anticipation notes. As it became apparent that the 2004 Finance Plan would not be approved prior to the end of federal fiscal year 2006, the Commonwealth applied unobligated authority to the grant anticipation notes in September 2006.

Project Cash Flow. The Commonwealth anticipates being able to meet the project's cash flow needs through fiscal 2007, excluding any expansion in the scope of work arising from the safety review, using existing funds and spending authority. To the extent that fiscal 2007 spending exceeds the previously planned amount or that project costs exceed the \$14.625 billion budget and any such excess costs cannot be timely recovered from responsible project vendors, additional financial resources would need to be identified, and the project's finance plan would need to be modified to allow for the timing of expenditures and of the availability of additional resources.

Contractor Claims and Risks. The annual finance plan budgets for the potential cost of change orders and contractor claims on awarded and un-awarded contracts. The Claims and Changes Department of the Project has made substantial progress in recent years in resolving contractor claims, although significant items remain open. The Project reports that recent settlements have been within expectations on an overall basis and that contingency reserves are expected to be adequate. Project management currently expects that the costs of such settlements will be within the \$14.625 billion project budget. However, if settlements exceed expectations, the remaining unassigned contingency within the project budget may be insufficient.

Media reports have referred to the financial difficulties of a particular Project contractor. The MTA is monitoring that contractor's progress with respect to its obligations under Project contracts and its continuing ability to complete those obligations on an ongoing basis. The contractor continues to progress in its work on the Project, and the Turnpike Authority has not received information that the contractor's financial status will prevent its contractual obligations from being met or the Project from being completed in accordance with the current schedule.

SEC Inquiry. In late August and early September 2006, the Securities and Exchange Commission (SEC) sent certain departments and instrumentalities of the Commonwealth letters requesting voluntary provision of documents and information regarding safety reviews of the Project during the period January 1, 2004, to the present and related disclosures. The Commonwealth and the Turnpike Authority are cooperating with the SEC.

As a whole, at this time, the Commonwealth has not independently assessed the extent of the leaks or to what extent a liability, if any for these repairs, would accrue to the Commonwealth.

MSBA Litigation. The MSBA was substituted in as a defendant in a lawsuit that was filed against the Department of Education in 2003. The lawsuit stems from the Department of Education's disallowance of certain interest costs for certain school construction projects. On October 18, 2005, the Trial Court dismissed the plaintiff's complaint with prejudice. The plaintiff has appealed the Trial Court's ruling to the Massachusetts Appeals Court. The Appeals Court had not yet ruled on the appeal.

D. Claims and Judgments

The following amounts were recognized for claims and judgements as of June 30, 2006:

	Balance as of July 1, 2005	Additions	Reductions	Balance as of June 30, 2006
Short-term.....	\$ 57,900	\$ -	\$ 7,100	\$ 50,800
Long-term.....	73,000	71,400	-	144,400
	<u>\$ 130,900</u>	<u>\$ 71,400</u>	<u>\$ 7,100</u>	<u>\$ 195,200</u>

- E. *Discretely Presented Component Units*** The MBTA reserves self-insurance liabilities as claims and judgements as of June 30, 2006. Changes in the self-insurance reserves in fiscal 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Liability, beginning of year.....	\$ 95,928	\$ 89,106
Current year claims and changes in estimates.....	143,220	129,679
Claims payments.....	<u>(131,208)</u>	<u>(122,857)</u>
Liability, end of year.....	<u>\$ 107,940</u>	<u>\$ 95,928</u>

14. SUBSEQUENT EVENTS

- A. *Primary Government*** On July 19, 2006, the Boston campus of the University of Massachusetts closed the interior parking facilities that were part of the substructure of the original campus buildings constructed in 1974. While regular inspections and reports had indicated that the facility was structurally sound, the campus determined that the loss of parking spaces, the continual rerouting of pedestrian and vehicular traffic, and the associated costs no longer made it a viable parking option.

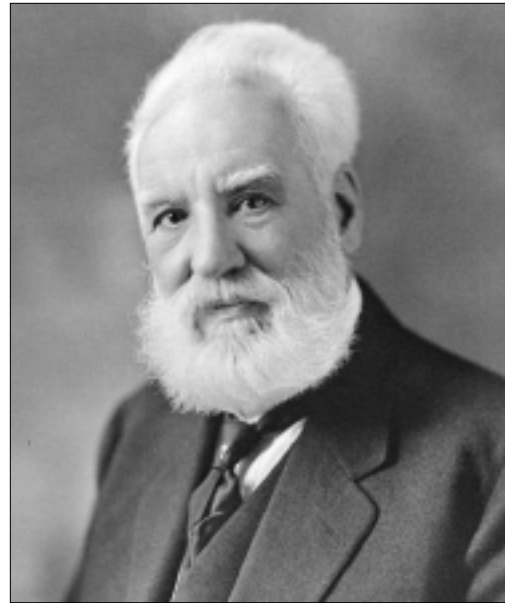
- B. *Discretely Presented Component Units*** On June 1, 2006, Level 3 Communications, LLC and WilTel Communications, LLC (now affiliates) were due to make annual payments on easement agreements (rental payments) in effect since 1999 with the MTA (the Agreements). The rental payment, totaling approximately \$4 million, was withheld. The MTA timely presented default letters to each, and on August 24, 2006 filed an action in the Suffolk Superior Court to recover the rental payment together with the default interest provided for in the agreements and legal fees. On August 25, 2006, Level 3 filed an action in the United States District Court for the District of Massachusetts seeking a declaration that the rental payment provision, as well as certain other terms, of the Agreements was unenforceable because they violated Section 253 of the Federal Telecommunications Act. Level 3's action also sought to recover from the MTA some portion of the rental payments previously made by it to the MTA since 1999 on grounds of "unjust enrichment." If Level 3 establishes in its action that the rental payment provision in the Agreements is unenforceable, it is likely that a substantially reduced annual payment will be found to apply, the amount of which cannot be determined at this time.

Per the terms of its 2001 swaption agreements with the MTA (see note 2g), UBS AG could exercise an option relative to about \$334 million in 1997 Series A and Series B bonds as of January 1, 2007, provided that the MTA was notified of this prior to September 5, 2006. UBS AG did not provide notification as of this date. The next exercise notification date is March 3, 2007.

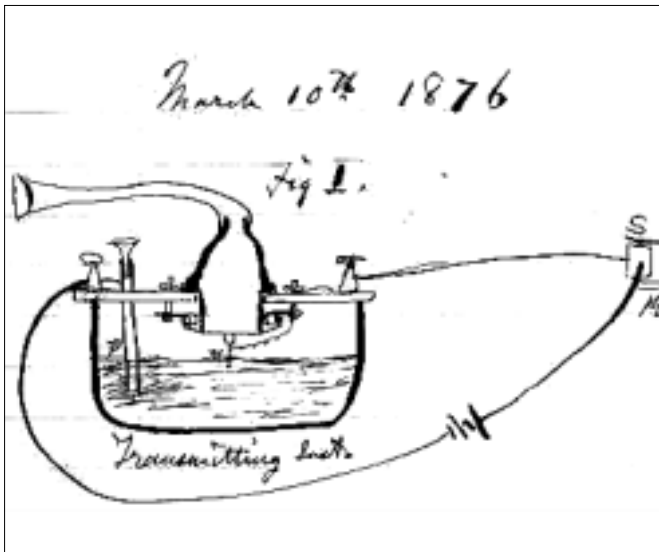
Telephone

A plaque commemorates the historic first transmittance of sound over wire. The marker reads, "Birthplace of the Telephone. Here, on June 2, 1875, Alexander Graham Bell and Thomas A. Watson first transmitted sound over wires. This successful experiment was completed in a fifth floor garret ... and marked the beginning of world-wide telephone service." Mr. Watson had twanged a clock spring in their experimental telegraphic device, which Mr. Bell physically heard on a 2nd device.

On March 10th, 1876, at the same workshop, Bell shouted the famous words, "Mr. Watson, Come Here, I Want to See You." Thomas Watson, his assistant, surprisingly heard Bell's voice over their telegraphic contraption, and this event marks the first use of a telephone in history.



Alexander Graham Bell (1847-1922)



Bell's Notebook Sketch of the First Telephone
Image courtesy of the Library of Congress

The telephone was first exhibited at the Philadelphia Centennial Exposition in 1876, which gained Bell instant fame. Patent conflicts with the Western Union Telegraph Company were resolved in the next few years, and Bell's company eventually became American Telephone and Telegraph. AT&T, or Ma Bell, was known for great innovation and service, and was broken into smaller companies by government mandate in 1984. The decibel, or unit of volume, was named in honor of Alexander Graham Bell.

An immigrant from Scotland, he worked in the field of vocal physiology, and as a teacher for the deaf, and moved to Boston in the early 1870s, becoming a professor at Boston University. He was compelled to invent a device that would transmit sound over telegraph wires. At the age of 29, his dream was fulfilled when Mr. Watson came to his aid after hearing his voice through his experimental telephone.

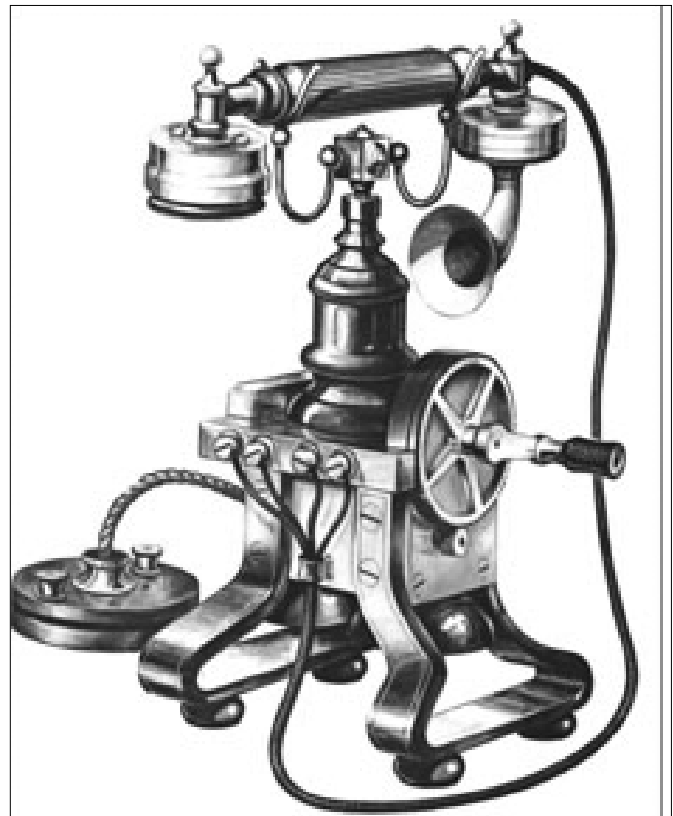
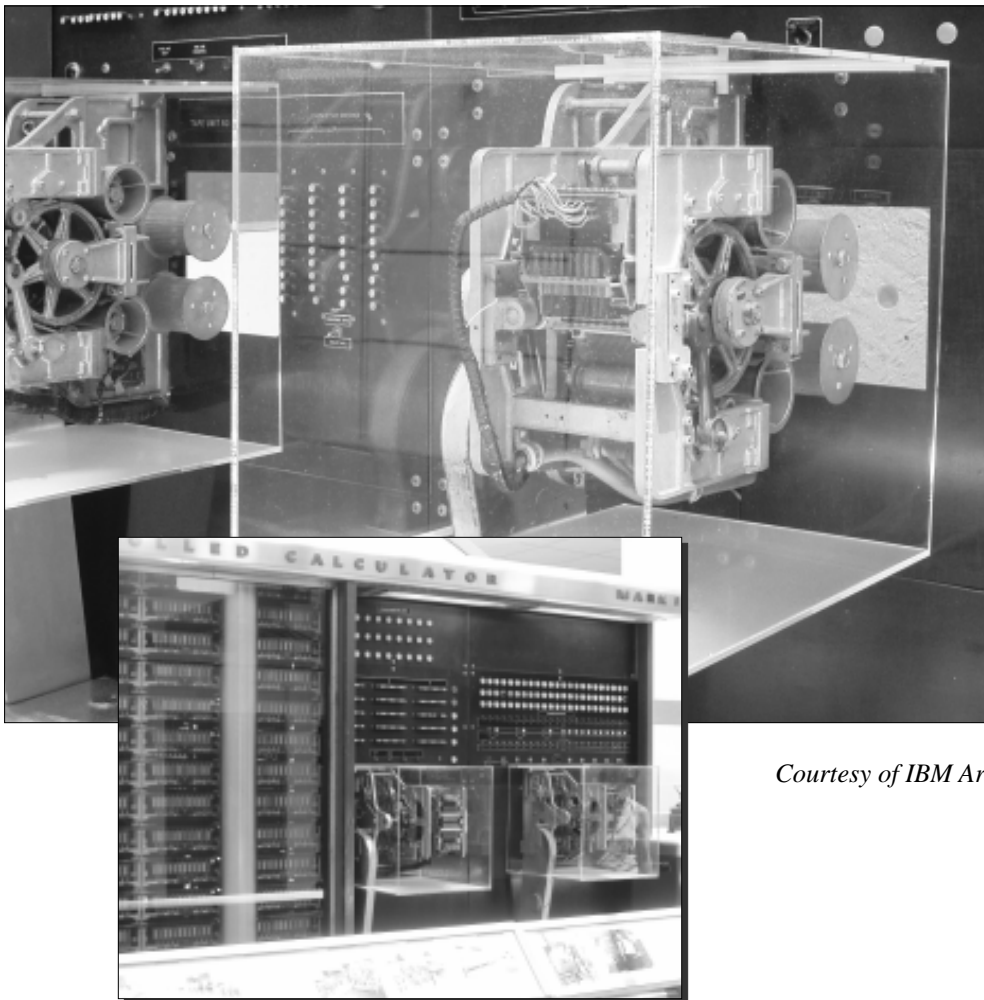


Image courtesy of the Library of Congress

Required Supplementary Information

Other than Management Discussion and Analysis



The IBM Automatic Sequence Controlled Calculator (ASCC) was devised by Howard H. Aiken and shipped to Harvard in 1944 where it was called the Mark I.

It was the first large-scale automatic digital computer in the United States and was considered by some to be the first universal calculator.

Courtesy of IBM Archive: ASCC Reference Room

***Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual
Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for Budgetary***

Funds on a Budgetary Basis and GAAP Basis

Notes to Required Supplementary Information – Budgetary Reporting

Schedule of Pension Funding Progress –Last Three Fiscal Years

Schedule Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual

Budgeted Funds

Fiscal Year Ended June 30, 2006

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 16,081,700	\$ 16,081,700	\$ 17,286,156	\$ 1,204,456
Assessments.....	-	-	146,116	146,116
Federal grants and reimbursements.....	5,263,000	5,263,000	5,210,163	(52,837)
Departmental.....	1,942,600	1,942,600	1,827,736	(114,864)
Miscellaneous.....	26,600	26,600	308,324	281,724
Total revenues.....	23,313,900	23,313,900	24,778,495	1,464,595
Other financing sources:				
Fringe benefit cost recovery.....	-	-	238,043	238,043
Lottery reimbursements.....	-	89,230	89,730	500
Lottery distributions.....	-	978,699	941,601	(37,098)
Tobacco settlement transfer.....	-	253,038	236,305	(16,733)
Excess permissible tax revenue.....	-	-	104,206	104,206
Operating transfers in.....	1,674,100	353,133	272,611	(80,522)
Stabilization transfer.....	-	-	373,990	373,990
Transfer for transitional escrow.....	-	-	303,838	303,838
Federal medicaid assistance percentage escrow transfer.....	-	-	324,769	324,769
Total other financing sources.....	1,674,100	1,674,100	2,885,093	1,210,993
Total revenues and other financing sources.....	24,988,000	24,988,000	27,663,588	2,675,588
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	84,896	84,898	54,552	30,346
Judiciary.....	649,308	699,334	658,603	40,731
Inspector General.....	3,094	3,094	2,763	331
Governor and Lieutenant Governor.....	5,691	5,691	4,640	1,051
Secretary of the Commonwealth.....	38,895	40,014	37,474	2,540
Treasurer and Receiver-General.....	195,819	145,262	124,921	20,341
Auditor of the Commonwealth.....	17,311	17,321	17,317	4
Attorney General.....	39,332	39,322	37,070	2,252
Ethics Commission.....	1,446	1,446	1,446	-
District Attorney.....	85,288	86,808	85,692	1,116
Office of Campaign & Political Finance.....	1,078	1,078	1,067	11
Sheriff's Departments.....	240,661	246,354	243,628	2,726
Disabled Persons Protection Commission.....	1,807	1,807	1,805	2
Board of Library Commissioners.....	5,289	5,289	5,289	-
Comptroller.....	11,692	11,724	11,513	211
Administration and finance.....	1,720,544	2,135,316	1,735,465	399,851
Environmental affairs.....	238,988	267,379	199,782	67,597
Housing and community development.....	99,497	192,078	117,273	74,805
Early education and care.....	481,473	481,473	470,497	10,976
Health and human services.....	4,529,365	4,606,570	4,464,191	142,379
Transportation and construction.....	211,898	333,245	212,954	120,291
Education.....	355,832	365,326	338,958	26,368
Higher education.....	990,934	1,013,601	987,779	25,822
Public safety and homeland security.....	990,871	1,046,023	1,011,376	34,647
Economic development.....	176,699	248,009	143,694	104,315
Direct local aid.....	4,620,806	4,631,778	4,618,832	12,946
Medicaid.....	6,962,363	6,967,363	6,852,464	114,899
Pension.....	-	1,274,675	1,274,675	-
Debt service:				
Principal retirement.....	907,743	922,331	905,106	17,225
Interest and fiscal charges.....	804,733	790,144	760,428	29,716
Total expenditures.....	24,473,353	26,664,753	25,381,254	1,283,499
Other financing uses:				
Fringe benefit cost assessment.....	-	55,400	59,200	(3,800)
Excess permissible tax revenue.....	-	-	104,206	(104,206)
Uncompensated care pool transfer.....	-	171,900	171,900	-
Operating transfers out.....	-	132,186	223,568	(91,382)
Stabilization transfer.....	-	-	373,990	(373,990)
Transfer for transitional escrow.....	-	-	303,838	(303,838)
Fund consolidation transfer.....	-	-	324,769	(324,769)
Total other financing uses.....	-	359,486	1,561,471	(1,201,985)
Total expenditures and other financing uses.....	24,473,353	27,024,239	26,942,725	81,514
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	514,647	(2,036,239)	720,863	2,757,102
Fund balances (deficit) at beginning of year.....	2,487,187	2,487,187	2,487,187	-
Fund balances (deficits) at end of year.....	\$ 3,001,834	\$ 450,948	\$ 3,208,050	\$ 2,757,102

See note to required supplementary information-Budgetary Reporting

**Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses)
for Budgetary Funds on a Budgetary Basis and GAAP Basis (in thousands):**

	<u>Budgeted Funds</u>
Revenues:	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 24,778,495
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax revenue	156,589
Federal reimbursements and other receivables.....	25,702
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	<u>(74,663)</u>
Total budgeted funds revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	24,886,123
Non-Budgeted Activity.....	<u>11,916,319</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 36,802,442</u>
Expenditures:	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule.....	\$ 25,381,254
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	74,500
Compensated absences and other accrued liabilities.....	(16,883)
Reclassifications:	
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	(1,665,534)
Higher education expenditures are reclassified for GAAP reporting.....	<u>(1,131,010)</u>
Total budgeted funds expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	22,642,327
Non-Budgeted Activity.....	<u>15,446,943</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 38,089,270</u>
Other Financing Sources:	
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule.....	\$ 2,885,093
Adjustments:	
Consolidation of transfers between funds.....	(782,904)
Inflows from component units and other miscellaneous financing sources.....	<u>43,361</u>
Total budgeted funds other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	2,145,550
Non-Budgeted Activity.....	<u>8,241,917</u>
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 10,387,467</u>
Other Financing Uses:	
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule.....	\$ 1,561,471
Adjustments and Reclassifications:	
Consolidation of transfers between funds.....	(782,904)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	1,056,347
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	1,665,534
Outflows from component units and other miscellaneous financing sources.....	<u>13,766</u>
Total budgeted funds other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	3,514,214
Non-Budgeted Activity.....	<u>3,371,797</u>
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 6,886,011</u>

Note to Required Supplementary Information – Budgetary Reporting

Statutory Basis of Accounting

The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations (not funds, which are deemed to be accounting entities) and is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year-end. Deeds excise taxes are recognized at the time of collection by the counties and the Commonwealth.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year-end.

Budgetary Approval

State finance law requires that the Governor and the Legislature approve a balanced budget. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds, which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts, which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

GAAP require that the originally adopted general appropriation act be in the “original budget column” and the final legally adopted budget, including supplemental appropriations, be reflected in the “final budget” column. The “actual” column contains the statutory inflows and outflows related to budgetary accounts. The “variance” column contains the difference between the “final budget” and the “actual” columns. A positive number in revenues and other financing sources reflects increased revenues over budget. A positive number in expenditures and other financing uses reflects increased revenues over budget.

**Schedule of Pension Funding Progress
Last Three Fiscal Years**

(Amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll
State Employees Retirement System						
Actuarial Valuation as of January 1, 2006.... \$	16,638,043	\$ 20,406,926	\$ 3,768,883	81.5%	\$ 4,200,577	89.7%
Actuarial Valuation as of January 1, 2005....	16,211,000	19,575,000	3,364,000	82.8%	3,967,000	84.8%
Actuarial Valuation as of January 1, 2004....	15,931,000	18,966,000	3,065,000	84.0%	3,842,000	79.8%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2006.... \$	18,683,295	\$ 27,787,716	\$ 9,104,421	67.2%	\$ 4,819,325	188.9%
Actuarial Valuation as of January 1, 2005....	17,683,000	26,167,000	8,483,000	67.6%	4,643,000	182.7%
Actuarial Valuation as of January 1, 2004....	17,075,000	24,519,000	7,444,000	69.6%	4,556,000	163.4%
State - Boston Retirement System (Boston Teachers)						
Actuarial Valuation as of January 1, 2006.... \$	1,055,435	\$ 2,237,332	\$ 1,181,897	47.2%	\$ 386,434	305.8%
Actuarial Valuation as of January 1, 2005....	1,044,000	2,141,000	1,097,000	48.8%	379,000	289.4%
Actuarial Valuation as of January 1, 2004....	1,040,000	2,022,000	982,000	51.4%	368,000	266.8%

Other Supplementary Information



The photograph above was taken in 1860 by James W. Black from the balloon, *Queen of the Air*, owned by Samuel Archer King. This image is the first successful aerial photograph taken from a balloon in the United States. This 1860 view is looking east from a tethered balloon on Boston Common. Washington Street is in the foreground, with the Old South Meeting House on the left. Most of the buildings in the center were destroyed by the Great Boston Fire of 1872.

Selected Technology and Patterns

Radio Broadcast, Marshfield	1906
Colored Printing, Jacob Bigelow	1817
Reading Machine, Ray Kurzweil	1976
Aerial Photograph	1860
Telephone patented and demonstrated by Alexander Graham Bell, Boston.....	1876
Telegraph, Samuel Morse, based on his code	1837
Typewriter, Charles Thurber	1843
New International wireless message from Marconi Beach, Cape Cod	1903
Snow-making machine, Lexington	1952
Desktop Calculator; Word Processor; An Wang	1965
Liquid rocket fuel, Dr. Robert Goddard, Auburn	1926
PC based electronic spreadsheet, ViisiCal, Daniel Brickman.....	1979
Precursor to the Internet introduced, (ARPANET)	1969
E-mail. Ray Tomlinson of Beranek and Newman	1971
The message was “QWERTYUIOP” and was sent by two side by side computers connected via ARPANET	
Polaroid camera, a “one step photography system”, Edward Land	1947
Digital computer, Howard Aiken at Harvard. It was 50’ long, 8’ tall and weighed 50 tons	1944
Microwave oven, Perry Spencer at Raytheon	1947
Lie detector, William Marston, Harvard	1915

Combined Balance Sheet – Nonmajor Governmental Funds

Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds

Combining Balance Sheet – Nonmajor Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Special Revenue Funds

Combining Balance Sheet – Nonmajor Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Capital Projects Funds

Combining Statement of Net Assets Available for Pension Benefits

Combining Statement of Changes in Net Assets Available for Pension Benefits

Combining Statement of Net Assets Held in Trust for Pool Participants

Combining Statement of Changes in Net Assets Held in Trust for Pool Participants

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Combining Balance Sheet – Nonmajor Component Units

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Component Units

Combined Balance Sheet
Nonmajor Governmental Funds
June 30, 2006
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Total
ASSETS			
Cash and short-term investments.....	\$ 1,179,191	\$ -	\$ 1,179,191
Cash with fiscal agent.....	569,524	144,051	713,575
Restricted investments and annuity contracts.....	620,751	-	620,751
Receivables, net of allowance for uncollectibles:			
Taxes.....	69,059	-	69,059
Due from federal government.....	369,885	11,901	381,786
Other receivables.....	220,566	1,378	221,944
Due from cities and towns.....	22,625	-	22,625
Due from other funds.....	-	115,196	115,196
Total assets.....	\$ 3,051,601	\$ 272,526	\$ 3,324,127
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable.....	\$ 494,341	\$ 225,357	\$ 719,698
Compensated absences.....	673	261	934
Due to other funds.....	114,307	459,388	573,695
Due to component units.....	99,003	10,060	109,063
Deferred revenue.....	17,587	-	17,587
Claims and judgments.....	-	20,800	20,800
Notes payable.....	-	25,100	25,100
Other accrued liabilities.....	155,909	-	155,909
Total liabilities.....	881,820	740,966	1,622,786
Fund balances (deficits):			
Reserved for continuing appropriations.....	30,744	-	30,744
Reserved for retirement of indebtedness.....	674,517	-	674,517
Reserved for capital projects.....	-	19,223	19,223
Reserved for central artery workers' compensation and general liability.....	-	114,359	114,359
Unreserved.....	1,464,520	(602,022)	862,498
Fund balances (deficits).....	2,169,781	(468,440)	1,701,341
Total liabilities and fund balances.....	\$ 3,051,601	\$ 272,526	\$ 3,324,127

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Fiscal Year Ended June 30, 2006
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Total
Revenues:			
Taxes.....	\$ 954,048	\$ -	\$ 954,048
Assessments.....	707,520	-	707,520
Federal grants and reimbursements.....	3,877,271	30,493	3,907,764
Departmental.....	665,973	1,030	667,003
Miscellaneous.....	666,595	148,837	815,432
Total revenues.....	6,871,407	180,360	7,051,767
Other financing sources:			
Proceeds of general obligation bonds.....	-	1,338,493	1,338,493
Operating transfers in.....	1,078,775	421,256	1,500,031
Total other financing sources.....	1,078,775	1,759,749	2,838,524
Total revenues and other financing sources.....	7,950,182	1,940,109	9,890,291
Expenditures:			
Current:			
Judiciary.....	3,805	-	3,805
Inspector General.....	589	-	589
Secretary of the Commonwealth.....	6,097	-	6,097
Treasurer and Receiver-General.....	916,037	10,060	926,097
Auditor of the Commonwealth.....	623	-	623
Attorney General.....	14,851	-	14,851
District Attorney.....	8,705	-	8,705
Sheriff's Departments.....	3,620	-	3,620
Board of Library Commissioners.....	2,933	-	2,933
Comptroller.....	2,286	-	2,286
Administration and finance.....	120,319	-	120,319
Environmental affairs.....	91,990	-	91,990
Housing and community development.....	418,514	-	418,514
Early education and care.....	11,286	-	11,286
Health and human services.....	2,338,564	-	2,338,564
Transportation and construction.....	44,220	21,712	65,932
Education.....	822,843	-	822,843
Higher education.....	12,903	-	12,903
Public safety and homeland security.....	132,572	-	132,572
Economic development.....	295,680	-	295,680
Medicaid.....	753,240	-	753,240
Direct local aid.....	12,911	-	12,911
Capital outlay:			
Local aid.....	-	8,315	8,315
Capital acquisition and construction.....	-	1,519,339	1,519,339
Total expenditures.....	6,014,588	1,559,426	7,574,014
Other financing uses:			
Operating transfers out.....	1,244,978	125,703	1,370,681
Transfers of appropriations.....	37	-	37
Transfers of bond proceeds.....	-	46,719	46,719
Transfers out for debt service.....	249,587	-	249,587
Total other financing uses.....	1,494,602	172,422	1,667,024
Total expenditures and other financing uses.....	7,509,190	1,731,848	9,241,038
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	440,992	208,261	649,252
Fund balances (deficits) at beginning of year.....	1,728,789	(676,701)	1,052,089
Fund balances (deficits) at end of year.....	\$ 2,169,781	\$ (468,440)	\$ 1,701,341

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006
(Amounts in thousands)

	Federal Grants	Universal Health Care	Environmental	Other Special Revenue Funds	Total
ASSETS					
Cash and short-term investments.....	\$ -	\$ 304,443	\$ 12,398	\$ 862,350	\$ 1,179,191
Cash with fiscal agent.....	-	-	-	569,524	569,524
Restricted investments and annuity contracts.....	-	-	-	620,751	620,751
Receivables, net of allowance for uncollectibles:					
Taxes.....	-	-	75	68,984	69,059
Due from federal government.....	295,482	-	-	74,403	369,885
Other receivables.....	-	24,852	-	195,714	220,566
Due from cities and towns.....	-	-	-	22,625	22,625
Total assets.....	\$ 295,482	\$ 329,295	\$ 12,473	\$ 2,414,351	\$ 3,051,601
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable.....	\$ 242,705	\$ 13,153	\$ 668	\$ 237,815	\$ 494,341
Compensated absences.....	626	-	-	47	673
Due to other funds.....	49,397	-	-	64,910	114,307
Due to component units.....	-	-	-	99,003	99,003
Deferred revenue.....	-	17,085	-	502	17,587
Other accrued liabilities.....	-	155,909	-	-	155,909
Total liabilities.....	292,728	186,147	668	402,277	881,820
Fund balances (deficits):					
Reserved for continuing appropriations.....	-	-	50	30,694	30,744
Reserved for retirement of indebtedness.....	-	-	-	674,517	674,517
Unreserved.....	2,754	143,148	11,755	1,306,863	1,464,520
Fund balances (deficits).....	2,754	143,148	11,805	2,012,074	2,169,781
Total liabilities and fund balances.....	\$ 295,482	\$ 329,295	\$ 12,473	\$ 2,414,351	\$ 3,051,601

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
Fiscal Year Ended June 30, 2006
(Amounts in thousands)

	Federal Grants	Universal Health Care	Environmental	Other Special Revenue Funds	Total
Revenues:					
Taxes.....	\$ -	\$ -	\$ 883	\$ 953,165	\$ 954,048
Assessments.....	-	330,600	-	376,920	707,520
Federal grants and reimbursements.....	2,478,613	433,578	2,337	962,743	3,877,271
Departmental.....	-	523,665	6,009	136,299	665,973
Miscellaneous.....	126	7,429	38	659,002	666,595
Total revenues.....	2,478,739	1,295,272	9,267	3,088,129	6,871,407
Other financing sources:					
Operating transfers in.....	744	251,904	129	825,998	1,078,775
Total other financing sources.....	744	251,904	129	825,998	1,078,775
Total revenues and other financing sources.....	2,479,483	1,547,176	9,396	3,914,127	7,950,182
Expenditures:					
Current:					
Judiciary.....	793	-	-	3,012	3,805
Inspector General.....	-	589	-	-	589
Secretary of the Commonwealth.....	425	-	-	5,672	6,097
Treasurer and Receiver-General.....	1,396	15	-	914,626	916,037
Auditor of the Commonwealth.....	-	-	-	623	623
Attorney General.....	9,234	-	-	5,617	14,851
District Attorney.....	2,010	-	-	6,695	8,705
Sheriff's Departments.....	3,420	-	-	200	3,620
Board of Library Commissioners.....	2,907	-	-	26	2,933
Comptroller.....	-	-	-	2,286	2,286
Administration and finance.....	7,987	47	-	112,285	120,319
Environmental affairs.....	33,221	-	10,433	48,336	91,990
Housing and community development.....	415,313	-	-	3,201	418,514
Early education and care.....	11,150	-	-	136	11,286
Health and human services.....	819,215	1,386,746	-	132,603	2,338,564
Transportation and construction.....	10,612	-	-	33,608	44,220
Education.....	818,117	-	-	4,726	822,843
Higher education.....	5,688	-	-	7,215	12,903
Public safety and homeland security.....	97,285	-	-	35,287	132,572
Economic development.....	148,542	18,464	-	128,674	295,680
Medicaid.....	-	-	-	753,240	753,240
Direct local aid.....	-	-	-	12,911	12,911
Total expenditures.....	2,387,315	1,405,861	10,433	2,210,979	6,014,588
Other financing uses:					
Operating transfers out.....	87,112	46,642	1,502	1,109,722	1,244,978
Transfers of appropriations.....	-	-	-	37	37
Transfers out for debt service.....	-	-	-	249,587	249,587
Total other financing uses.....	87,112	46,642	1,502	1,359,346	1,494,602
Total expenditures and other financing uses.....	2,474,427	1,452,503	11,935	3,570,325	7,509,190
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	5,056	94,673	(2,539)	343,801	440,992
Fund balances (deficits) at beginning of year.....	(2,302)	48,475	14,344	1,668,273	1,728,789
Fund balances (deficits) at end of year.....	\$ 2,754	\$ 143,148	\$ 11,805	\$ 2,012,074	\$ 2,169,781

Combining Balance Sheet
Nonmajor Capital Projects Funds
 June 30, 2006
 (Amounts in thousands)

	General Capital Projects Funds	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other Capital Projects Funds	Total
ASSETS						
Cash with fiscal agent.....	\$ -	\$ -	\$ -	\$ -	\$ 144,051	\$ 144,051
Receivables, net of allowance for uncollectibles:						
Due from federal government.....	11,901	-	-	-	-	11,901
Other receivables.....	-	-	-	-	1,378	1,378
Due from other funds.....	-	14,094	36,192	-	64,910	115,196
Total assets.....	\$ 11,901	\$ 14,094	\$ 36,192	\$ -	\$ 210,339	\$ 272,526
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable.....	\$ 117,223	\$ -	\$ 8,967	\$ 39,778	\$ 59,389	\$ 225,357
Compensated absences.....	13	-	-	248	-	261
Due to other funds.....	206,202	-	-	207,598	45,588	459,388
Due to component units.....	10,060	-	-	-	-	10,060
Claims and judgments.....	-	-	-	-	20,800	20,800
Notes payable.....	-	-	25,100	-	-	25,100
Total liabilities.....	333,498	-	34,067	247,624	125,777	740,966
Fund balances (deficits):						
Reserved for capital projects.....	-	14,094	2,125	-	3,004	19,223
Reserved for central artery workers' compensation.....	-	-	-	-	114,359	114,359
Unreserved.....	(321,597)	-	-	(247,624)	(32,801)	(602,022)
Fund balances (deficits).....	(321,597)	14,094	2,125	(247,624)	84,562	(468,440)
Total liabilities and fund balances.....	\$ 11,901	\$ 14,094	\$ 36,192	\$ -	\$ 210,339	\$ 272,526

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Projects Funds
Fiscal Year Ended June 30, 2006
(Amounts in thousands)

	General Capital Projects Funds	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other Capital Projects Funds	Total
Revenues:						
Federal grants and reimbursements.....	\$ 30,409	\$ -	\$ -	\$ -	\$ 84	\$ 30,493
Departmental.....	-	-	-	-	1,030	1,030
Miscellaneous.....	-	-	145,000	-	3,837	148,837
Total revenues.....	30,409	-	145,000	-	4,951	180,360
Other financing sources:						
Proceeds of general obligation bonds.....	840,126	-	-	473,705	24,662	1,338,493
Operating transfers in.....	-	-	-	-	421,256	421,256
Total other financing sources.....	840,126	-	-	473,705	445,918	1,759,749
Total revenues and other financing sources.....	870,535	-	145,000	473,705	450,869	1,940,109
Expenditures:						
Current:						
Treasurer and Receiver-General.....	10,060	-	-	-	-	10,060
Transportation and construction.....	-	-	-	-	21,712	21,712
Capital outlay:						
Local aid.....	-	-	-	-	8,315	8,315
Capital acquisition and construction.....	647,699	12,124	44,046	388,845	426,625	1,519,339
Total expenditures.....	657,759	12,124	44,046	388,845	456,652	1,559,426
Other financing uses:						
Operating transfers out.....	7,512	-	-	112,758	5,433	125,703
Transfers of bond proceeds.....	46,719	-	-	-	-	46,719
Total other financing uses.....	54,231	-	-	112,758	5,433	172,422
Total expenditures and other financing uses.....	711,990	12,124	44,046	501,603	462,085	1,731,848
Excess (deficiency) of revenues and other financing sources over expenditures and other financing use	158,545	(12,124)	100,954	(27,898)	(11,216)	208,261
Fund balances (deficits) at beginning of year.....	(480,142)	26,218	(98,829)	(219,726)	95,778	(676,701)
Fund balances (deficits) at end of year.....	\$ (321,597)	\$ 14,094	\$ 2,125	\$ (247,624)	\$ 84,562	\$ (468,440)

Combining Statement of Net Assets Available for Pension Benefits
Pension Trust Funds
June 30, 2006
(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	Total
ASSETS			
Cash and short-term investments.....	\$ 302,819	\$ 778,280	\$ 1,081,099
Investments at fair value.....	18,300,050	21,171,400	39,471,450
Other receivables, net of allowance for uncollectibles.....	158,808	250,112	408,920
Other assets.....	1,553	1,730	3,283
Total assets.....	18,763,230	22,201,522	40,964,752
LIABILITIES			
Accounts payable.....	620,000	687,748	1,307,748
Total liabilities.....	620,000	687,748	1,307,748
Net assets available for pension benefits (fund balances reserved for employees' pension benefits).....	\$ 18,143,230	\$ 21,513,774	\$ 39,657,004

Combining Statement of Changes in Net Assets Available for Pension Benefits
Pension Trust Funds
Fiscal Year Ended June 30, 2006
(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	Total
Additions:			
Contribution:			
Employer contributions.....	\$ 331,304	\$ 816,792	\$ 1,148,096
Employee contributions.....	748,196	913,379	1,661,575
Total contributions.....	1,079,500	1,730,171	2,809,671
Net investment income:			
Net appreciation in fair value.....	1,942,192	2,165,829	4,108,021
Interest.....	242,589	270,523	513,112
Dividends.....	197,797	220,573	418,370
Real estate operating income, net.....	98,843	110,225	209,068
Alternative investments.....	12,220	13,627	25,847
Other.....	425,388	21,479	446,867
Total investment income.....	2,919,029	2,802,256	5,721,285
Less: investment expense.....	73,947	82,461	156,408
Net investment income.....	2,845,082	2,719,795	5,564,877
Total additions.....	3,924,582	4,449,966	8,374,548
Deductions:			
Administration.....	130,264	463,862	594,126
Retirement benefits and refunds.....	1,784,713	1,134,751	2,919,464
Total deductions.....	1,914,977	1,598,613	3,513,590
Net increase.....	2,009,605	2,851,353	4,860,958
Net assets available for pension benefits at beginning of year (fund balances reserved for employees' pension benefits).....			
	16,133,625	18,662,421	34,796,046
Net assets available for pension benefits at end of year (fund balances reserved for employees' pension benefits).....	\$ 18,143,230	\$ 21,513,774	\$ 39,657,004

Combining Statement of Net Assets Held in Trust for Pool Participants
 External Investment Trust Funds
 June 30, 2006
 (Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ASSETS			
Assets held in trust for pension benefits:			
Cash and short-term investments.....	\$ -	\$ 63,063	\$ 63,063
Investments at fair value.....	-	2,354,294	2,354,294
Assets held in trust for pool participants:			
Cash and short-term investments.....	2,149,091	-	2,149,091
Other receivables, net of allowance for uncollectibles.....	4,957	20,035	24,992
Other assets.....	-	196	196
Total assets.....	2,154,048	2,437,588	4,591,636
LIABILITIES			
Liabilities:			
Accounts payable.....	53,516	77,705	131,221
Other accrued liabilities.....	176	-	176
Total liabilities.....	53,692	77,705	131,397
Net assets held in trust for pool/pension participants			
(fund balance reserved for investment pool/employee			
pension benefits).....	\$ 2,100,356	\$ 2,359,883	\$ 4,460,239

Combining Statement of Changes in Net Assets Held in Trust for Pool Participants

External Investment Trust Funds

Fiscal Year Ended June 30, 2006

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
Additions:			
Contribution:			
Proceeds from sale of units.....	\$ 8,039,565	\$ 42,728	\$ 8,082,293
Units issued - reinvestment of distributions.....	55,339	-	55,339
Total contributions.....	8,094,904	42,728	8,137,632
Net investment income:			
Dividends.....	-	24,954	24,954
Real estate operating income, net.....	-	12,470	12,470
Alternative investments.....	-	1,542	1,542
Net appreciation in fair value of investments.....	-	743,062	743,062
Interest.....	76,900	30,605	107,505
Other.....	-	2,430	2,430
Total investment income.....	76,900	815,063	891,963
Less: Management fees.....	1,890	-	1,890
Less: Investment expense.....	-	9,329	9,329
Net investment income.....	75,010	805,734	880,744
Total additions.....	8,169,914	848,462	9,018,376
Deductions:			
Cost of units redeemed.....	7,943,564	-	7,943,564
Distributions to unit holders from net interest income.....	75,010	-	75,010
Retirement benefits and refunds.....	-	108,577	108,577
Total deductions.....	8,018,574	108,577	8,127,151
Net increase.....	151,340	739,885	891,225
Net assets held in trust for pool participants/pensions at beginning of year (fund balance reserved for investment pool participants/employees' pension benefit).....	1,949,016	1,619,998	3,569,014
Net assets held in trust for pool participants/pensions at end of year (fund balance reserved for investment pool participants/ employees' pension benefit).....	\$ 2,100,356	\$ 2,359,883	\$ 4,460,239

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2006

(Amounts in thousands)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>Central Agency Funds</u>				
ASSETS				
Cash and short-term investments.....	\$ 301,864	\$ 6,831,389	\$ 6,785,653	\$ 347,600
Assets held in trust.....	26,565	40,060	26,565	40,060
Taxes receivable.....	2,017	1,647	2,017	1,647
Total assets.....	\$ 330,446	\$ 6,873,096	\$ 6,814,235	\$ 389,307
LIABILITIES				
Accounts payable.....	\$ 55,954	\$ 3,272,604	\$ 3,269,105	\$ 59,453
Due to cities and towns.....	55,591	379,610	388,106	47,095
Due to federal government.....	-	72	72	-
Agency liabilities.....	218,901	3,217,070	3,153,212	282,759
Total liabilities.....	\$ 330,446	\$ 6,869,356	\$ 6,810,495	\$ 389,307
<u>Court Escrow and Client Accounts</u>				
ASSETS				
Cash and short-term investments.....	\$ 89,931	\$ 1,078,500	\$ 1,085,688	\$ 82,743
Assets held in trust.....	56,421	50,194	56,421	50,194
Other receivables.....	90,200	94,145	90,200	94,145
Total assets.....	\$ 236,552	\$ 1,222,839	\$ 1,232,309	\$ 227,082
LIABILITIES				
Accounts payable.....	\$ -	\$ 511,596	\$ 511,460	\$ 136
Agency liabilities.....	236,552	658,404	668,010	226,946
Total liabilities.....	\$ 236,552	\$ 1,170,000	\$ 1,179,470	\$ 227,082
<u>Statutory Bonds and Deposits</u>				
ASSETS				
Cash and short-term investments.....	\$ 86	\$ -	\$ -	\$ 86
Assets held in trust.....	1,879,723	2,034	522,357	1,359,400
Total assets.....	\$ 1,879,809	\$ 2,034	\$ 522,357	\$ 1,359,486
LIABILITIES				
Agency liabilities.....	\$ 1,879,809	\$ 2,034	\$ 522,357	\$ 1,359,486
Total liabilities.....	\$ 1,879,809	\$ 2,034	\$ 522,357	\$ 1,359,486

(continued)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>Total Agency Funds</u>				
ASSETS				
Cash and short-term investments.....	\$ 391,881	\$ 7,909,889	\$ 7,871,341	\$ 430,429
Assets held in trust.....	1,962,709	92,288	605,343	1,449,654
Taxes receivable.....	2,017	1,647	2,017	1,647
Other receivables.....	90,200	94,145	90,200	94,145
Total assets.....	<u>\$ 2,446,807</u>	<u>\$ 8,097,969</u>	<u>\$ 8,568,901</u>	<u>\$ 1,975,875</u>
LIABILITIES				
Accounts payable.....	\$ 55,954	\$ 3,784,200	\$ 3,780,565	\$ 59,589
Due to cities and towns.....	55,591	379,610	388,106	47,095
Due to federal government.....	-	72	72	-
Agency liabilities.....	2,335,262	3,877,508	4,343,579	1,869,191
Total liabilities.....	<u>\$ 2,446,807</u>	<u>\$ 8,041,390</u>	<u>\$ 8,512,322</u>	<u>\$ 1,975,875</u>

(concluded)

Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2006

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Commonwealth Health Insurance Connector	Economic Development Entities	Total
Assets							
Current assets:							
Cash and cash equivalents.....	\$ 18,745	\$ 201,232	\$ 12,979	\$ 1,261	\$ -	\$ 24,933	\$ 259,150
Short-term investments.....	5,154	3,316	1,186	162,862	24,992	74,664	272,174
Receivables, net of allowance for uncollectibles:							
Federal grants and reimbursement receivable.....	-	-	25,973	-	-	4,460	30,433
Loans.....	-	7,251	-	-	-	21,054	28,305
Other receivables.....	25,814	6,842	13,172	2,693	-	10,062	58,583
Due from cities and towns.....	-	-	18,631	-	-	-	18,631
Due from primary government.....	13,520	9,336	68,604	-	-	10,126	101,586
Inventory.....	-	259	640	-	-	123	1,022
Other current assets.....	1,185	5,871	3,344	251	-	387	11,038
Total current assets.....	64,418	234,107	144,529	167,067	24,992	145,809	780,922
Noncurrent assets:							
Cash and cash equivalents - restricted.....	-	17,450	353	-	-	-	17,803
Long - term investments.....	-	15,107	-	63,358	-	80,181	158,646
Restricted investments.....	-	-	-	25,819	-	-	25,819
Accounts receivables, net.....	-	4,526	1,917	-	-	367	6,810
Loans receivables, net.....	-	73,677	-	4,170	-	240,283	318,130
Due from primary government.....	-	-	3,812	-	-	339,524	343,336
Capital assets, net of accumulated depreciation.....	866,373	217,082	238,130	12,549	-	10,278	1,344,412
Other noncurrent assets.....	140	25,406	5,050	3,962	-	3,542	38,100
Total noncurrent assets.....	866,513	353,248	249,262	109,858	-	674,175	2,253,056
Total assets.....	930,931	587,355	393,791	276,925	24,992	819,984	3,033,978
Liabilities							
Current liabilities:							
Accounts payable and other liabilities.....	7,763	16,106	30,846	27,347	43	13,010	95,115
Accrued payroll.....	-	-	1,133	-	-	273	1,406
Compensated absences.....	-	-	203	-	-	737	940
Accrued interest payable.....	296	3,394	1,959	-	-	771	6,420
Due to primary government.....	12,462	-	-	-	-	-	12,462
Deferred revenue.....	7,892	-	5,160	-	-	6,565	19,617
Capital leases.....	-	-	714	-	-	44	758
Bonds, notes payable and other obligations - current.....	1,690	12,057	98,961	-	-	16,596	129,304
Total current liabilities.....	30,103	31,557	138,976	27,347	43	37,996	266,022
Noncurrent liabilities:							
Compensated absences.....	-	-	382	-	-	89	471
Deferred revenue.....	-	9,974	-	-	-	17,447	27,421
Capital leases.....	-	-	3	-	-	-	3
Bonds, notes payable and other obligations.....	14,583	221,886	14,168	-	-	654,604	905,241
Other noncurrent liabilities.....	4,939	-	2,302	-	-	13,043	20,284
Total noncurrent liabilities.....	19,522	231,860	16,855	-	-	685,183	953,420
Total liabilities.....	49,625	263,417	155,831	27,347	43	723,179	1,219,442
Net Assets							
Invested in capital assets, net of related debt.....	849,389	47,944	238,169	12,549	-	10,278	1,158,329
Restricted for:							
Debt service.....	236	-	-	-	-	-	236
Capital projects.....	-	-	-	-	-	4,940	4,940
Other purposes.....	-	93,762	4,851	231,921	-	64,444	394,978
Unrestricted.....	31,681	182,232	(5,060)	5,108	24,949	17,143	256,053
Total net assets.....	\$ 881,306	\$ 323,938	\$ 237,960	\$ 249,578	\$ 24,949	\$ 96,805	\$ 1,814,536

Combining Statement Of Revenues, Expenses And Changes In Net Assets
Nonmajor Component Units
Fiscal Year Ended June 30, 2006
(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Commonwealth Health Insurance Connector	Economic Development Entities	Total
Operating revenues and expenses:							
Charges for services.....	\$ 37,515	\$ 29,837	\$ 95,654	\$ 1,424	\$ -	\$ 25,204	\$ 189,634
Other.....	780	20,547	3,809	30,525	-	37,850	93,511
Total operating revenues.....	38,295	50,384	99,463	31,949	-	63,054	283,145
Operating expenses:							
Cost of services.....	38,006	3,112	180,693	26,578	-	49,476	297,865
Administration costs.....	14,208	48,109	21,911	304	51	16,269	100,852
Depreciation.....	35,101	9,988	24,712	822	-	836	71,459
Total operating expenses.....	87,315	61,209	227,316	27,704	51	66,581	470,176
Operating income (loss).....	(49,020)	(10,825)	(127,853)	4,245	(51)	(3,527)	(187,031)
Nonoperating revenues (expenses):							
Operating grants.....	24,053	12,457	102,757	-	25,000	14,078	178,345
Interest income.....	1,003	9,096	716	6,789	-	4,702	22,306
Interest expense.....	(1,041)	(13,055)	(3,256)	-	-	(19,148)	(36,500)
Other nonoperating revenue (expense).....	26,325	(439)	(39,140)	-	-	1,398	(11,856)
Nonoperating revenues (expenses), net.....	50,340	8,059	61,077	6,789	25,000	1,030	152,295
Income (loss) before contributions and operating transfer.....	1,320	(2,766)	(66,776)	11,034	24,949	(2,497)	(34,736)
Capital contributions.....	20,227	8,758	47,788	-	-	3,875	80,648
Change in net assets.....	21,547	5,992	(18,988)	11,034	24,949	1,378	45,912
Net assets - beginning.....	859,759	317,946	256,948	238,544	-	95,427	1,768,624
Net assets - ending.....	\$ 881,306	\$ 323,938	\$ 237,960	\$ 249,578	\$ 24,949	\$ 96,805	\$ 1,814,536



Molasses flood, 1919

Boston First Night

Founded in 1976, First Night was started by a group of artists and local residents who sought an alternative to traditional New Year's Eve revelry. Since then, the celebration has grown from a small arts event centered on the Boston Common to a major citywide festival of the arts with related year-round community programming.

The First Night celebration serves as a showcase for Boston's cultural and artistic communities through over 250 exhibitions and performances by both local and internationally recognized artists. First Night attracts a total audience of more than 1.5 million people annually. The unique concept that originated in Boston 30 years ago has served as a model for more than 200 similar celebrations worldwide. First Night has truly become a cherished Boston tradition.

Courtesy of First Night, Inc.

Molasses Flood

On January 15, 1919, around noon, a fifty-foot-tall tank of molasses – sited on Commercial Street between Boston Harbor and the tenements – burst open, emitting a crushing, suffocating fifteen-foot wave of lethal brown syrup, 2.3 million gallons of it in a pressurized rush. The bursting tank let out such a roar and crash that some terrified residents thought it was a revival of the war, the Germans bombing Boston. The viscous, inescapable tide initially traveled at speeds of thirty-five miles per hour, crushing everything in its path, even twisting the El. It pulled down houses and buildings, drowned men, women, and children, horses, dogs and cats. They were submerged and suffocated, or swept into the frigid harbor waters and drowned, or killed by some hellish combination of fatal forces.

In the dark wake of the flood, twenty-one people were killed – longshoremen, teamsters, pavers, a fireman, a housewife, and a boy and girl, each aged ten; 150 were injured, some crippled for life. Never before had an ordinary ingredient turned murderous against a whole neighborhood. The Great Molasses Flood was a terrible Boston First; it presaged industrial accidents to come later in the twentieth century and established precedents, however slow to develop, for dealing with corporate irresponsibility, malfeasance, and greed. Rules to govern the certification of engineers were put into place, and construction regulations tightened. In the gargantuan court case that eventually ensued, some of the earliest awards for pain and suffering were granted.



*An ice sculpture at twilight
Photography by Paul Robicheau*

Events

<i>Thanksgiving, actually a feast after the pilgrims first harvest</i>	<i>1621</i>
<i>Lion exhibited in the United States, Boston</i>	<i>1716</i>
<i>Battle of the American Revolution</i>	<i>1775</i>
<i>First night celebration</i>	<i>1976</i>
<i>Largest outdoor antique market, Brimfield, three times a year</i>	<i>on going</i>
<i>Molasses flood</i>	<i>1919</i>

Statistical Section



*Steve Rose Motorcycle Ice Sculpture, First Night
Photography by Paul Robicheau*

Schedule of Net Assets by Component – Last Five Fiscal Years

Changes in Net Assets – Last Five Fiscal Years

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Calculation of Transfers – Stabilization Fund

Calculation of Transfer – Tax Reduction Fund

Massachusetts General Information

Statistical Section Narrative and Table of Contents

This part of the Commonwealth of Massachusetts’ comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth’s overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Commonwealth’s financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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¹ Tax Year 2004 is the last “closed” tax year

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**Schedule Of Net Assets by Component
Last Five Fiscal Years**

(Amounts in thousands)

	2006	2005	2004	2003	2002
Governmental activities					
Invested in capital assets, net of related debt.....	\$ 101,510	\$ 196,765	\$ 2,032,958	\$ 3,901,007	\$ 5,611,252
Restricted*.....	1,758,291	1,289,174	519,746	311,837	793,991
Unrestricted*.....	(12,157,187)	(13,030,031)	(8,894,155)	(12,318,385)	(13,820,768)
Total governmental activities net assets.....	<u>\$ (10,297,385)</u>	<u>\$ (11,544,092)</u>	<u>\$ (6,341,451)</u>	<u>\$ (8,105,541)</u>	<u>\$ (7,415,525)</u>
Business - type activities					
Invested in capital assets, net of related debt.....	\$ 1,283,570	\$ 1,149,352	\$ 1,132,637	\$ 1,073,152	\$ 1,032,022
Restricted.....	1,816,066	1,331,053	915,583	946,704	1,784,322
Unrestricted.....	548,774	562,777	434,007	321,523	243,605
Total business - type activities net assets.....	<u>\$ 3,648,410</u>	<u>\$ 3,043,182</u>	<u>\$ 2,482,227</u>	<u>\$ 2,341,379</u>	<u>\$ 3,059,949</u>
Commonwealth net assets					
Invested in capital assets, net of related debt.....	\$ 1,385,080	\$ 1,346,117	\$ 3,165,595	\$ 4,974,159	\$ 6,643,274
Restricted*.....	3,574,357	4,750,395	1,435,329	1,258,541	2,578,313
Unrestricted*.....	(11,608,413)	(14,597,422)	(8,460,148)	(11,996,862)	(13,577,163)
Total Commonwealth net assets.....	<u>\$ (6,648,975)</u>	<u>\$ (8,500,910)</u>	<u>\$ (3,859,224)</u>	<u>\$ (5,764,162)</u>	<u>\$ (4,355,576)</u>

*Restated

**Changes in Net Assets
Last Five Fiscal Years**

(Amounts in thousands)

	2006	2005	2004	2003	2002
EXPENSES					
Governmental Activities:					
General government.....	\$ 1,984,732	\$ 1,815,877	\$ 2,059,234	\$ 1,833,325	\$ 1,360,663
Judiciary.....	673,930	636,381	538,434	594,584	571,467
Direct local aid.....	4,682,027	4,525,847	4,877,089	5,118,711	5,252,805
Medicaid.....	8,150,576	7,705,717	6,909,412	6,177,280	5,978,811
Group health insurance.....	970,150	872,970	778,072	732,252	770,832
Public assistance.....	1,129,031	1,095,903	1,019,068	1,017,997	1,029,645
Interest (unallocated).....	985,474	861,265	788,908	739,463	687,817
Pension.....	441,200	440,152	241,845	354,802	237,472
Environmental and recreation.....	415,440	396,094	366,943	376,983	457,055
Housing and communities development.....	664,321	603,227	589,603	585,263	551,377
Health and human services including Elder affairs*.....	5,306,321	5,196,735	4,839,472	4,639,823	4,516,606
Transportation and construction.....	1,266,396	1,546,361	1,558,462	2,037,485	1,753,244
Education.....	1,942,206	8,219,960	1,248,020	1,422,204	1,893,438
Public safety and homeland security.....	1,650,547	1,520,338	1,412,580	1,289,341	959,425
Economic Development, Consumer and Labor*.....	387,132	358,839	380,698	420,871	384,591
Lottery.....	3,708,713	3,692,520	3,606,608	3,470,046	3,453,858
Total governmental activities.....	34,358,196	39,488,186	31,214,448	30,810,430	29,859,108
Business - Type Activities:					
Unemployment compensation.....	1,337,565	1,662,955	2,461,293	2,589,107	2,183,100
Higher Education:					
University of Massachusetts.....	2,116,226	1,977,546	1,597,676	1,531,381	1,437,518
State colleges.....	568,592	514,122	456,022	425,154	418,593
Community colleges.....	592,310	548,017	525,179	523,403	508,895
Total business - type activities.....	4,614,693	4,702,640	5,040,170	5,069,045	4,548,107
Total Commonwealth expenses.....	\$ 38,972,889	\$ 44,190,826	\$ 36,254,618	\$ 35,879,475	\$ 34,407,214
REVENUES					
Program Revenues (all types consolidated):					
Governmental Activities:					
Charges for services.....	\$ 7,706,968	\$ 8,040,263	\$ 7,739,588	\$ 6,652,039	\$ 6,473,988
Operating grants and contributions.....	8,347,822	7,961,904	8,017,469	7,129,712	7,078,110
Capital grants and contributions.....	481,778	461,371	602,449	508,235	338
Total governmental activities.....	16,536,568	16,463,538	16,359,506	14,289,986	13,552,436
Business - Type Activities:					
Charges for services.....	3,266,312	3,253,584	2,692,468	1,943,194	877,389
Operating grants and contributions.....	684,108	854,653	1,376,666	1,249,768	869,848
Capital grants and contributions.....	-	-	-	-	77,161
Total business - type activities.....	3,950,420	4,108,237	4,069,134	3,192,962	1,824,398
Total Commonwealth Program Revenues.....	\$ 20,486,988	\$ 20,571,775	\$ 20,428,640	\$ 17,482,948	\$ 15,376,834
General Revenues and Other Changes in Net Assets (all types consolidated):					
Governmental Activities:					
Taxes (all types).....	\$ 18,668,322	\$ 17,580,271	\$ 16,406,781	\$ 15,161,687	\$14,688,596
Investment earnings and miscellaneous.....	1,396,033	1,168,540	1,042,704	1,179,686	(367,695)
Gain on sale of fixed assets.....	26,300	-	-	-	-
Transfers.....	(1,022,320)	(926,715)	(830,453)	(950,217)	(1,018,603)
Total governmental activities.....	19,068,335	17,822,096	16,619,033	15,391,157	13,302,298
Business - Type Activities:					
Investment earnings and miscellaneous.....	247,181	228,643	181,719	207,296	965,901
Transfers.....	1,022,320	926,715	830,453	950,217	1,018,603
Total business - type activities.....	1,269,501	1,155,358	1,012,172	1,157,513	1,984,504
Total Commonwealth General Revenues.....	\$ 20,337,836	\$ 18,977,454	\$ 17,631,205	\$ 16,548,670	\$ 15,286,802
CHANGES IN NET ASSETS					
Governmental activities.....	\$ 1,246,707	\$ (5,202,551)	\$ 1,764,090	\$ (1,129,287)	\$ (3,004,374)
Business - type activities.....	605,228	560,955	41,136	(718,570)	(739,205)
Total Commonwealth	\$ 1,851,935	\$ (4,641,596)	\$ 1,805,226	\$ (1,847,857)	\$ (3,743,578)

* NOTE: Economic Development, Consumer Affairs and Labor were consolidated into Economic Development effective FY04.
Elder Affairs was consolidated under Health and Human Services in FY04.



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Fund Balances, Governmental Funds
Last Five Fiscal Years

(Modified accrual basis of accounting)

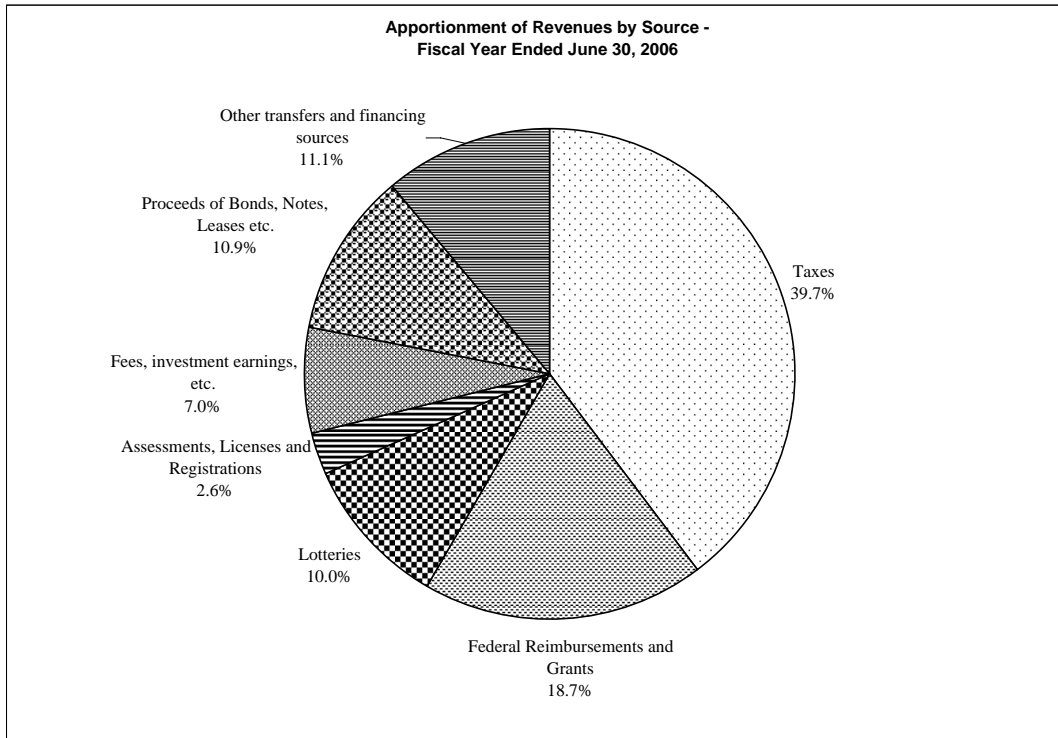
(Amounts in thousands)

	2006	2005	2004	2003	2002
General Fund					
Reserved.....	\$ 3,060,199	\$ 2,337,535	\$ 1,482,978	\$ 690,727	\$ 967,724
Unreserved.....	1,861,875	1,730,350	1,014,469	619,190	1,407,669
Total general fund.....	4,922,074	4,067,885	2,497,447	1,309,917	2,375,393
All Other Governmental Funds					
Reserved.....	1,109,898	1,154,807	1,947,897	1,474,983	1,726,590
Unreserved.....	1,231,222	(174,126)	(20,938)	(763,882)	(1,634,130)
Total all other governmental funds.....	2,341,121	980,681	1,926,959	711,101	92,460
Total governmental fund balances.....	\$ 7,263,195	\$ 5,048,566	\$ 4,424,406	\$ 2,021,018	\$ 2,467,853

Ten-Year Schedule Of Revenues And Other Financing Sources
All Governmental Fund Types - Fund Perspective
(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2006	% Total	2005	% Total	2004	% Total	2003	% Total
Taxes.....	\$ 18,754	39.7	\$ 17,671	40.6	\$ 16,133	36.4	\$ 15,091	35.3
Federal reimbursements.....	6,350	13.5	6,053	13.9	6,284	14.2	5,522	12.9
Federal grants.....	2,479	5.3	2,369	5.4	2,336	5.3	2,112	4.9
Lotteries.....	4,739	10.0	4,705	10.8	4,605	10.4	4,423	10.3
Assessments.....	850	1.8	831	1.9	773	1.7	645	1.5
Motor vehicle licenses and registrations.....	361	0.8	401	0.9	376	0.8	383	0.9
Fees, investment earnings, etc.....	3,270	7.0	3,213	7.5	3,028	6.8	2,331	5.4
Proceeds of general obligation bonds.....	4,492	9.5	1,354	3.1	1,993	4.5	1,911	4.5
Proceeds of special obligation bonds.....	-	-	-	-	-	-	-	-
Proceeds of grant anticipation notes.....	-	-	-	-	-	-	-	-
Proceeds of refunding bonds.....	633	1.3	1,385	3.2	3,302	7.4	3,398	7.9
Proceeds of capital lease.....	30	0.1	58	0.1	11	0.0	-	-
Operating transfers.....	5,232	11.1	5,493	12.6	5,531	12.5	6,981	16.3
Other financing sources.....	-	-	-	-	-	-	-	-
Total revenues and other financing sources.....	\$ 47,190	100.0	\$ 43,533	100.0	\$ 44,372	100.0	\$ 42,796	100.0



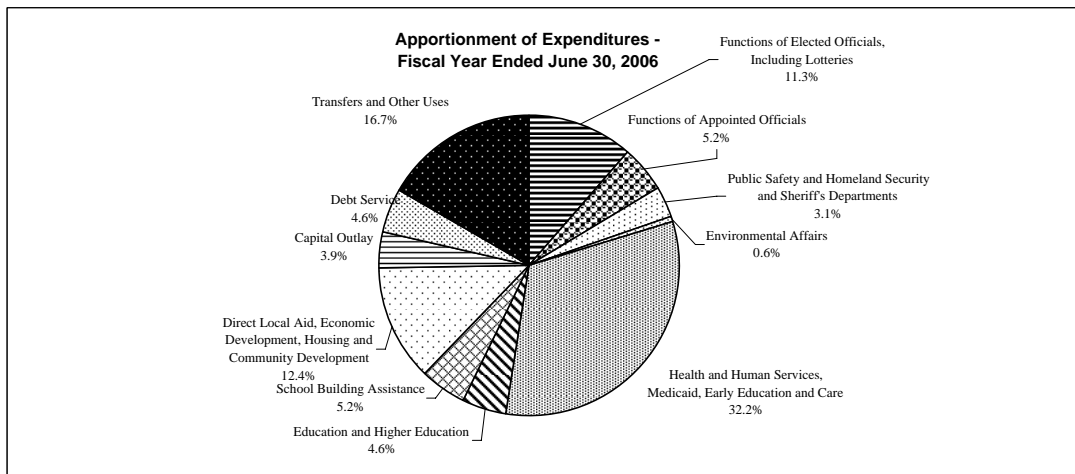
2002	% Total	2001	% Total	2000	% Total	1999	% Total	1998	% Total	1997	% Total
\$ 14,428	39.6	\$ 16,803	42.8	\$ 15,695	41.1	\$ 14,321	43.0	\$ 14,033	44.9	\$ 13,030	47.7
5,267	14.4	4,716	12.0	4,496	11.8	4,213	12.7	4,385	14.0	4,124	15.1
1,812	5.0	1,644	4.2	1,565	4.1	1,456	4.4	1,470	4.7	1,457	5.3
4,425	12.1	4,136	10.5	3,914	10.3	3,570	10.7	3,392	10.9	3,375	12.3
572	1.6	590	1.5	462	1.2	546	1.6	514	1.6	552	2.0
326	0.9	311	0.8	285	0.7	281	0.8	295	0.9	295	1.1
2,178	6.0	1,885	4.8	1,776	4.7	1,433	4.3	1,394	4.5	930	3.4
1,489	4.1	1,769	4.5	1,762	4.6	1,015	3.0	1,347	4.3	899	3.3
12	-	-	-	-	-	-	-	100	0.3	-	-
-	-	600	1.5	602	1.6	319	1.0	-	-	-	-
1,501	4.1	999	2.5	-	-	499	1.5	862	2.8	723	2.6
10	-	31	0.1	9	0.0	9	0.1	15	0.1	62	0.2
4,454	12.2	5,566	14.2	7,502	19.7	4,555	13.7	3,338	10.7	1,920	7.0
3	-	206	0.5	106	0.3	1,056	3.2	104	0.3	6	-
<u>\$ 36,477</u>	<u>100.0</u>	<u>\$ 39,256</u>	<u>100.0</u>	<u>\$ 38,174</u>	<u>100.0</u>	<u>\$ 33,273</u>	<u>100.0</u>	<u>\$ 31,249</u>	<u>100.0</u>	<u>\$ 27,373</u>	<u>100.0</u>

Ten-Year Schedule Of Expenditures And Other Financing Uses By Secretariat
All Governmental Fund Types - Fund Perspective
(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2006	% Total	2005	% Total	2004	% Total	2003	% Total	2002	% Total
Legislature.....	\$ 55	0.12	\$ 50	0.1	\$ 51	0.1	\$ 53	0.1	\$ 60	0.2
Judiciary.....	660	1.47	580	1.4	577	1.4	568	1.3	593	1.5
Inspector General.....	3	0.01	3	0.0	2	0.0	2	-	2	-
Governor and Lieutenant Governor.....	5	0.01	5	0.0	5	0.0	5	-	6	-
Secretary of the Commonwealth.....	44	0.10	46	0.1	43	0.1	39	0.1	36	0.1
Treasurer and Receiver-General.....	4,803	10.68	4,706	11.0	4,535	10.8	4,446	10.3	3,558	9.2
Auditor of the Commonwealth.....	18	0.04	16	0.0	16	0.0	16	-	16	-
Attorney General.....	52	0.12	70	0.2	52	0.1	55	0.1	62	0.2
Ethics Commission.....	1	0.00	1	0.0	1	0.0	1	-	1	-
District Attorney.....	94	0.21	84	0.2	86	0.2	85	0.2	89	0.2
Office of Campaign and Political Finance.....	1	0.00	1	0.0	1	0.0	1	0.0	5	-
Sheriff's Department.....	247	0.55	216	0.5	218	0.5	215	0.5	216	0.6
Disabled Persons Protection Commission.....	2	0.00	2	0.0	2	0.0	2	0.0	2	-
Board of Library Commissioners.....	8	0.02	7	0.0	6	0.0	6	-	10	-
Comptroller.....	14	0.03	12	0.0	8	0.0	8	-	8	-
Administration and finance.....	1,651	3.67	1,536	3.6	1,508	3.6	1,202	2.8	1,361	3.5
Environmental affairs.....	282	0.63	238	0.6	225	0.5	236	0.5	268	0.7
Housing and communities development.....	536	1.19	483	1.1	470	1.1	476	1.1	449	1.2
Early education and care.....	482	1.07	-	-	-	-	-	-	-	-
Health and human services.....	6,797	15.11	7,602	17.7	6,832	16.3	5,962	13.8	6,104	15.7
Transportation and construction.....	282	0.63	316	0.7	189	0.5	218	0.5	139	0.4
Education.....	1,978	4.40	2,990	7.0	1,587	3.8	1,546	3.6	1,506	3.9
School building assistance.....	2,330	5.18	-	0.00	-	-	-	-	-	-
Educational affairs.....	-	-	-	-	-	-	-	-	-	-
Higher education.....	106	0.24	114	0.3	99	0.2	111	0.3	119	0.3
Public safety and homeland security.....	1,165	2.59	1,053	2.5	1,039	2.5	991	2.3	999	2.6
Economic development*.....	384	0.85	346	0.8	376	0.9	29	0.1	32	0.1
Elder affairs*.....	-	-	-	-	-	-	315	0.7	304	0.8
Consumer affairs*.....	-	-	-	-	-	-	55	0.1	63	0.2
Labor*.....	-	-	-	-	-	-	330	0.8	284	0.7
Medicaid.....	7,219	16.05	6,312	14.7	5,945	14.2	5,542	12.8	5,261	13.6
Pension.....	346	0.77	439	1.0	212	0.5	290	0.7	238	0.6
Direct local aid.....	4,674	10.39	4,515	10.5	4,861	11.6	5,103	11.8	5,231	13.5
Capital outlay:	-	-	-	-	-	-	-	-	-	-
Local aid.....	8	0.02	11	0.0	16	0.0	15	0.0	21	0.1
Capital acquisition and construction.....	1,754	3.90	1,863	4.3	2,120	5.1	2,526	5.8	2,562	6.6
Debt service.....	2,088	4.64	1,719	4.0	1,605	3.8	1,467	3.4	1,382	3.6
Other financing uses:										
Payments to refunded bond escrow agent.....	633	1.41	1,153	2.7	2,833	6.8	3,398	7.9	1,277	3.3
Transfers.....	6,253	13.90	6,419	15.0	6,448	15.4	7,931	18.3	6,551	16.9
Total expenditures and other financing uses.....	\$ 44,975	100.0	\$ 42,908	100.0	\$ 41,968	100.0	\$ 43,245	100.0	\$ 38,815	100.0

* NOTE: Economic Development, Consumer Affairs and Labor were consolidated into Economic Development effective FY04.
 Elder Affairs was consolidated under Health and Human Services in FY04.



	2001	% Total	2000	% Total	1999	% Total	1998	% Total	1997	% Total
\$	57	0.2	\$ 51	0.1	\$ 51	0.2	\$ 51	0.2	\$ 49	0.2
	597	1.6	544	1.4	511	1.6	470	1.5	433	1.6
	2	-	2	-	2	-	2	-	2	-
	6	-	6	-	5	-	5	-	5	-
	45	0.1	42	0.1	33	0.1	23	0.1	17	0.1
	3,335	8.8	3,483	9.2	2,783	8.6	2,649	8.7	2,711	10.0
	15	-	15	-	14	-	14	-	12	-
	36	0.1	34	0.1	49	0.2	41	0.1	5	-
	2	-	1	-	1	-	1	-	1	-
	86	0.2	77	0.2	72	0.2	68	0.2	62	0.2
	1	-	1	-	1	-	1	-	1	-
	201	0.5	178	0.5	134	0.4	40	0.1	-	-
	2	-	2	-	2	-	2	-	1	-
	11	-	10	-	10	-	9	-	6	-
	8	-	8	-	8	-	7	-	7	-
	1,202	3.3	1,192	3.1	1,056	3.3	1,058	3.5	937	3.5
	253	0.7	241	0.6	232	0.7	216	0.7	196	0.7
	442	1.2	405	1.1	356	1.1	351	1.2	344	1.3
	-	-	-	-	0	-	-	-	-	-
	5,622	15.0	5,324	14.0	5,160	15.9	5,058	16.6	4,507	16.7
	162	0.4	228	0.6	137	0.4	117	0.4	151	0.6
	1,492	3.9	1,353	3.6	1,263	3.9	1,153	3.8	1,026	3.8
	-	-	-	-	-	-	0	-	-	-
	-	-	-	-	-	-	-	-	-	-
	136	0.4	111	0.3	97	0.3	82	0.3	90	0.3
	955	2.5	879	2.3	860	2.6	853	2.8	860	3.2
	51	0.1	38	0.1	57	0.2	31	0.1	33	0.1
	241	0.6	217	0.6	197	0.6	179	0.6	174	0.6
	71	0.2	70	0.2	68	0.2	57	0.2	37	0.1
	172	0.5	188	0.5	166	0.5	186	0.6	189	0.7
	4,761	12.6	4,381	11.5	3,829	11.8	3,638	12.0	3,497	13.0
	318	0.8	398	1.0	324	1.0	414	1.4	413	1.5
	5,012	13.2	4,717	12.4	4,405	13.6	4,047	13.3	3,677	13.6
	34	0.1	47	0.1	73	0.2	102	0.3	181	0.7
	2,566	6.8	2,469	6.5	2,602	8.0	2,532	8.3	2,051	7.6
	1,408	3.7	1,237	3.3	1,212	3.7	1,215	4.0	1,278	4.7
	999	2.6	-	-	499	1.5	862	2.8	723	2.7
	7,526	19.9	10,073	26.5	6,193	19.1	4,883	16.1	3,311	12.3
\$	37,827	100.0	\$ 38,022	100.0	\$ 32,462	100.0	\$ 30,417	100.0	\$ 26,987	100.0

**Personal Income by Industry
Last Ten Calendar Years**

(Amounts in millions)

	2005	2004	2003	2002	2001
Total personal income.....	\$ 279,635	\$ 270,145	\$ 253,528	\$ 249,889	\$ 249,243
Farm earnings.....	121	115	111	97	107
Nonfarm earnings.....	224,729	218,260	203,659	199,402	201,162
Private earnings.....	198,825	192,668	180,248	176,504	179,116
Agricultural services, forestry, fishing.....	526	489	437	410	400
Mining.....	565	326	332	298	360
Construction.....	12,963	12,303	11,808	11,779	11,463
Manufacturing.....	26,009	25,807	25,616	25,519	26,675
Durable goods.....	18,344	18,614	18,192	18,346	19,685
Nondurable goods.....	7,665	7,193	7,424	7,173	6,989
Transportation and utilities.....	5,424	5,463	5,206	5,140	5,238
Wholesale trade.....	11,450	11,516	10,931	10,350	10,806
Retail trade.....	12,771	12,614	12,047	11,660	11,358
Services.....	129,116	124,152	113,871	111,346	112,815
Government.....	25,904	25,592	23,411	22,898	22,046
Federal, civilian.....	4,659	4,600	4,223	4,171	4,023
Military.....	1,031	931	661	597	562
State and local.....	20,214	20,061	18,527	18,130	17,461
Highest Income Tax Rate.....	5.3%	5.3%	5.3%	5.3%	5.6%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue

	2000	1999	1998	1997	1996
\$	240,209	\$ 216,221	\$ 203,987	\$ 189,885	\$ 178,797
	116	106	107	169	169
	195,723	175,021	161,510	149,449	140,371
	174,388	154,549	142,198	130,778	122,290
	960	871	769	711	643
	141	136	110	93	75
	10,097	8,886	7,839	6,889	6,252
	31,272	27,798	26,378	25,267	24,027
	21,622	18,777	17,749	17,033	16,202
	9,649	9,021	8,629	8,234	7,825
	9,506	8,542	7,952	7,491	7,346
	13,411	12,378	11,031	9,957	9,329
	15,308	14,231	13,397	12,393	12,040
	93,694	81,706	74,721	67,976	62,580
	21,335	20,472	19,312	18,671	18,081
	3,894	3,766	3,545	3,547	3,463
	556	534	532	543	575
	16,885	16,172	15,235	14,582	14,043
	5.85%	5.95%	5.95%	5.95%	5.95%

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Calendar (Tax) Years 2004 and 1995

(Amounts, except income level are in thousands)

<u>Calendar Year 2004 (or Fiscal Year 2005)</u>				
<u>Income Level</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Personal Income Tax Liability</u>	<u>Percentage of Total</u>
\$100,001 and higher	442,551	13%	\$ 5,324,659	59%
\$75,001 - \$100,000	270,812	8%	1,026,616	11%
\$50,001 - \$75,000	448,419	14%	1,160,455	13%
\$25,001 - \$50,000	792,312	24%	1,105,411	12%
\$10,001 - \$25,000	669,959	20%	311,447	3%
\$10,000 and lower	<u>690,528</u>	<u>21%</u>	<u>25,812</u>	<u>0%</u>
Total	<u><u>3,314,581</u></u>	<u><u>100%</u></u>	<u><u>\$ 8,954,400</u></u>	<u><u>100%</u></u>

<u>Calendar Year 1995 (or Fiscal Year 1996)</u>				
<u>Income Level</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Personal Income Tax Liability</u>	<u>Percentage of Total</u>
\$100,001 and higher	171,241	6%	\$ 2,316,651	38%
\$75,001 - \$100,000	159,780	5%	731,329	12%
\$50,001 - \$75,000	372,421	13%	1,161,234	19%
\$25,001 - \$50,000	771,050	26%	1,343,113	22%
\$10,001 - \$25,000	764,348	26%	500,061	8%
\$10,000 and lower	<u>686,370</u>	<u>23%</u>	<u>33,054</u>	<u>1%</u>
Total	<u><u>2,925,210</u></u>	<u><u>100%</u></u>	<u><u>\$ 6,085,441</u></u>	<u><u>100%</u></u>

Source: Massachusetts Department of Revenue - data is from last closed tax years.

Ten-Year Schedule Of Per Capita General Long-Term Bonded Debt

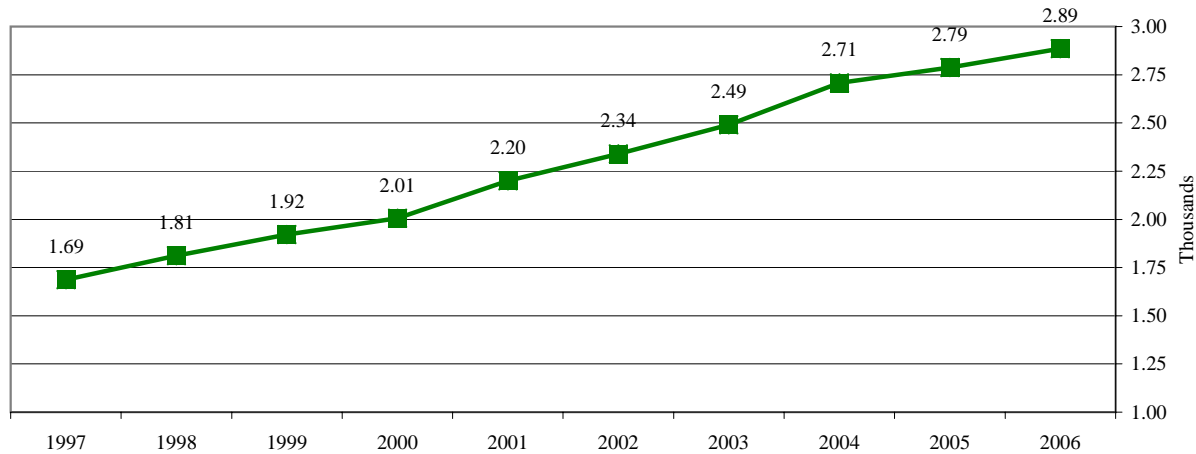
(Amounts in thousands)

Fiscal year ended June 30	Massachusetts Resident Population ⁽¹⁾	Total long- term bonds and notes payable ⁽²⁾	Per capita long-term debt
2006	6,399	\$ 18,461,406	\$ 2.89
2005	6,407	17,856,799	2.79
2004	6,418	17,382,172	2.71
2003	6,412	15,962,506	2.49
2002	6,395	14,955,135	2.34
2001	6,362	13,999,454	2.20
2000	6,175	12,383,101	2.01
1999	6,144	11,808,461	1.92
1998	6,115	11,078,603	1.81
1997	6,085	10,271,294	1.69

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.)* (2) Excludes Massachusetts School Building Authority debt.

Per Capita Direct Commonwealth Debt 1997 - 2006

(thousands)



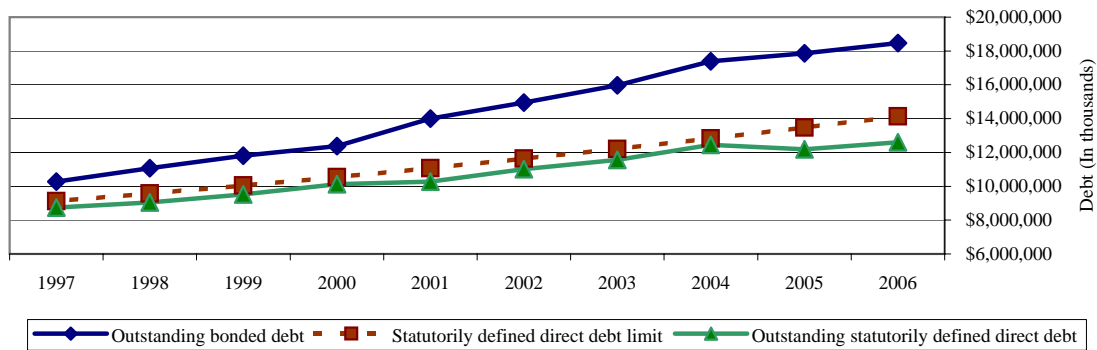
Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2006	2005	2004	2003	2002
Balance as of June 30 (2).....	\$ 18,461,406	\$ 17,856,799	\$ 17,382,172	\$ 15,962,506	\$ 14,955,135
Less amounts excluded by statute:					
Central artery project bonds principal.....	(1,476,287)	(1,336,741)	(1,066,638)	(1,386,869)	(838,193)
Chapter 5 of the Acts of 1992 bonds principal.....	-	-	-	(10,600)	(22,043)
County debt assumed.....	(525)	(600)	(675)	(855)	(1,115)
Premium / (Discount) and issuance costs.....	112,673	70,937	1,120	(68,718)	(181,910)
Fiscal recovery bonds principal.....	-	-	-	-	-
Grant anticipation notes (GANs) principal (1).....	(1,789,876)	(1,908,015)	(1,908,015)	(1,500,000)	(1,500,000)
School Modernization and Reconstruction Trust bonds principal.....	(1,000,002)	(500,000)	-	-	-
Convention Center bonds principal.....	(643,715)	(693,400)	-	-	-
MBTA forward funding bonds principal.....	(416,830)	(511,546)	(601,027)	(680,869)	(625,000)
Special obligation bonds principal (1).....	(647,551)	(792,148)	(1,347,882)	(748,124)	(772,812)
Outstanding statutorily defined direct debt.....	\$ 12,599,293	\$ 12,185,286	\$ 12,459,055	\$ 11,566,472	\$ 11,014,062
Statutorily defined direct debt limit.....	\$ 14,136,712	\$ 13,463,535	\$ 12,822,414	\$ 12,211,823	\$ 11,630,307
Debt margin (Debt limit less direct debt).....	\$ 1,537,418	\$ 1,278,249	\$ 363,359	\$ 645,352	\$ 616,245
Debt margin as a percentage of direct debt limit.....	10.88%	9.49%	2.83%	5.28%	5.30%

(1) Inclusive of Crossover Refunding Amounts. (2) exclusive of the Massachusetts School Building Authority debt

**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit
1997 - 2006**



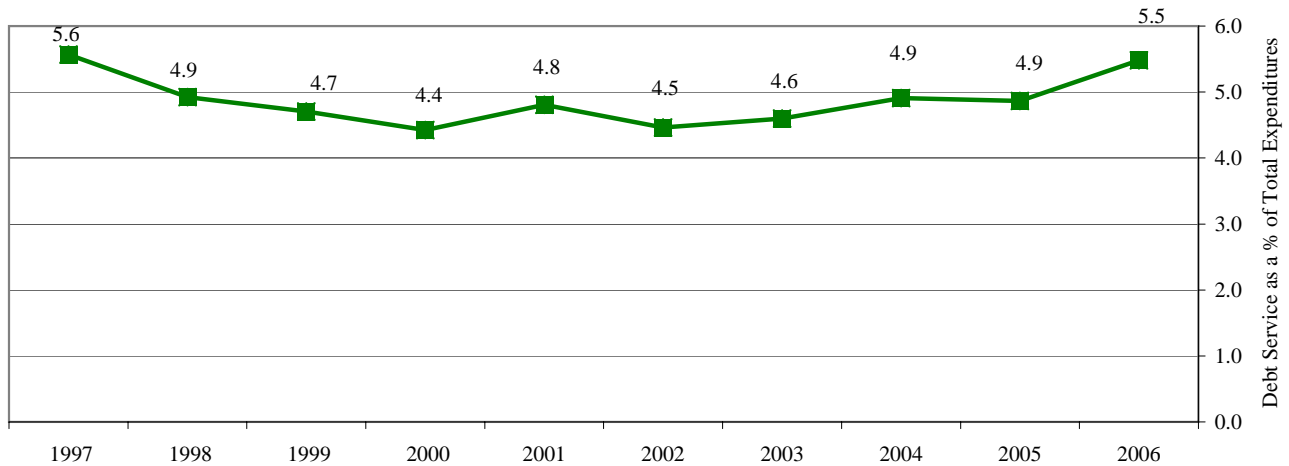
2001	2000	1999	1998	1997
\$ 13,999,454	\$ 12,383,101	\$ 11,808,461	\$ 11,078,603	\$ 10,271,294
(999,995)	-	-	-	-
(71,054)	(114,761)	(130,069)	(144,509)	(144,509)
(1,375)	(2,105)	(2,345)	(1,525)	-
(282,829)	(358,938)	(677,326)	(702,014)	(735,393)
-	-	-	-	(126,470)
(1,500,000)	(899,991)	(899,991)	(580,557)	-
-	-	-	-	-
-	-	-	-	-
(325,000)	(325,000)	-	-	-
(539,242)	(561,335)	(582,410)	(602,531)	(512,589)
<u>\$ 10,279,959</u>	<u>\$ 10,120,971</u>	<u>\$ 9,516,320</u>	<u>\$ 9,047,467</u>	<u>\$ 8,752,333</u>
<u>\$ 11,076,483</u>	<u>\$ 10,549,032</u>	<u>\$ 10,046,697</u>	<u>\$ 9,568,283</u>	<u>\$ 9,112,650</u>
<u>\$ 796,524</u>	<u>\$ 428,061</u>	<u>\$ 530,377</u>	<u>\$ 520,816</u>	<u>\$ 360,317</u>
<u>7.19%</u>	<u>4.06%</u>	<u>5.28%</u>	<u>5.44%</u>	<u>3.95%</u>

**Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures
For General Bonded Debt To Total Expenditures - Fund Perspective
All Governmental Fund Types**

(Amounts in millions)

Fiscal year ended June 30	Debt service	Total expenditures	Ratio
2006	\$ 2,089	\$ 38,089	5.5
2005	1,719	35,335	4.9
2004	1,605	32,687	4.9
2003	1,467	31,915	4.6
2002	1,382	30,987	4.5
2001	1,408	29,302	4.8
2000	1,237	27,949	4.4
1999	1,212	25,772	4.7
1998	1,215	24,672	4.9
1997	1,278	22,953	5.6

Debt Service to Total Expenditures Ratio 1997 - 2006



Component Units Revenue Bond Coverage For The Last Ten Fiscal Years

(Amounts in thousands)

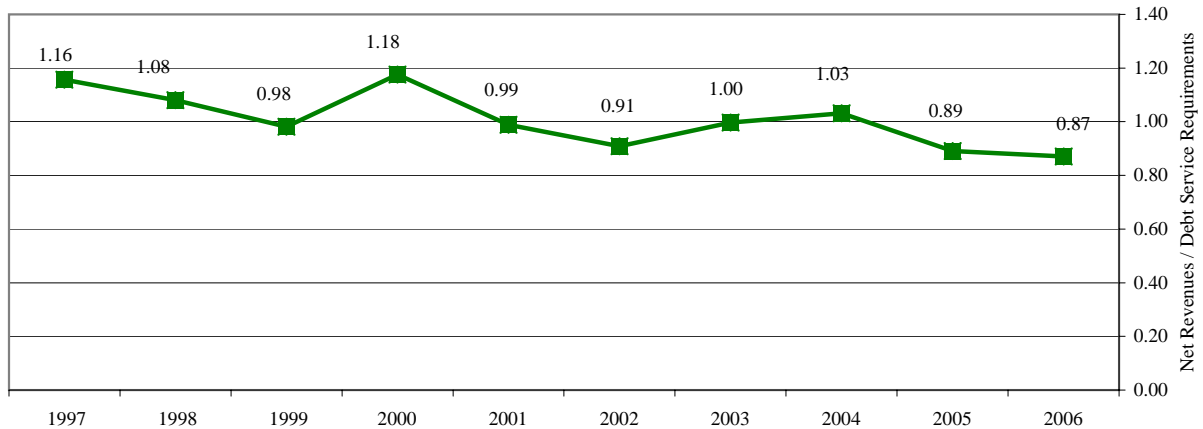
Fiscal year ended June 30	Net revenues ⁽¹⁾	Debt service requirements ⁽²⁾	Coverage Ratio
2006	\$ 717,190	\$ 823,406	0.87
2005	648,282	727,316	0.89
2004	700,677	679,457	1.03
2003	663,234	665,538	1.00
2002	716,951	789,318	0.91
2001	520,850	526,605	0.99
2000	600,812	510,876	1.18
1999	393,785	401,406	0.98
1998	372,672	344,884	1.08
1997	328,608	283,975	1.16

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants transfers and depreciation of only those Authorities with revenue bonds outstanding

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding

Source: Office of the Comptroller

Component Units Revenue Bond Coverage 1997 - 2006



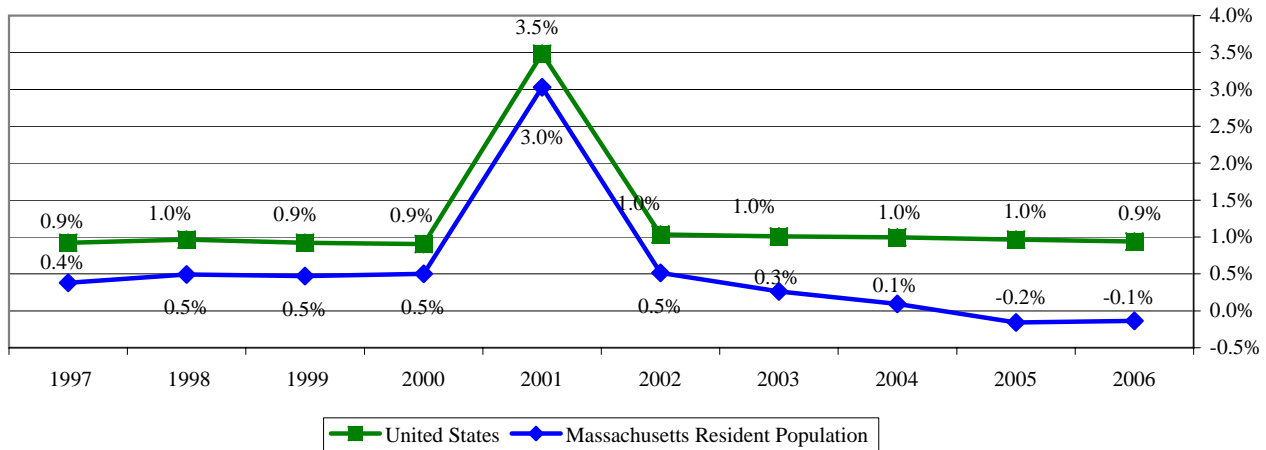
Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2006	296,410	0.9%	6,399	-0.1%	2.2%
2005	293,657	1.0%	6,407	-0.2%	2.2%
2004	290,850	1.0%	6,418	0.1%	2.2%
2003	287,985	1.0%	6,412	0.3%	2.2%
2002	285,108	1.0%	6,395	0.5%	2.2%
2001	282,192	3.5%	6,362	3.0%	2.3%
2000	272,691	0.9%	6,175	0.5%	2.3%
1999	270,248	0.9%	6,144	0.5%	2.3%
1998	267,784	1.0%	6,115	0.5%	2.3%
1997	265,229	0.9%	6,085	0.4%	2.3%

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.). FY01 reflects census 2000 data.*

**Massachusetts and United States Estimated Year- to- Year Population Change
1997 - 2006**

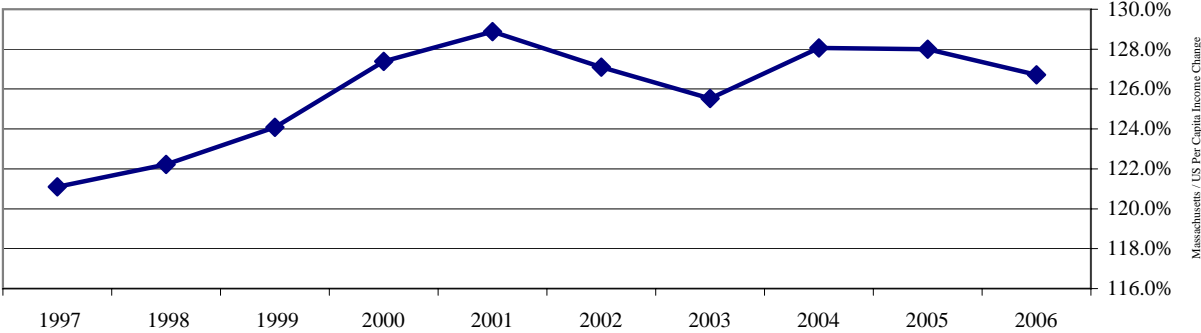


Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2006	\$ 36,715	6.4%	\$ 46,523	5.4%	126.7%
2005	34,499	5.5%	44,157	5.4%	128.0%
2004	32,705	4.6%	41,879	6.7%	128.1%
2003	31,264	2.4%	39,243	1.1%	125.5%
2002	30,529	1.3%	38,801	-0.1%	127.1%
2001	30,128	2.7%	38,828	3.9%	128.9%
2000	29,341	3.8%	37,377	6.5%	127.4%
1999	28,278	3.5%	35,087	5.1%	124.1%
1998	27,322	5.6%	33,394	6.6%	122.2%
1997	25,874	5.0%	31,332	5.8%	121.1%

Source: - United States Department of Commerce, Bureau of Economic Analysis, 2006 of June 30, 2006. 2002 restated by BEA. (1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. Source: - [HTTP://www.fedstats.gov](http://www.fedstats.gov) (US Census Bureau.)

**Massachusetts vs. United States Year- to- Year Per Capita Net Income Change
1997 - 2006**



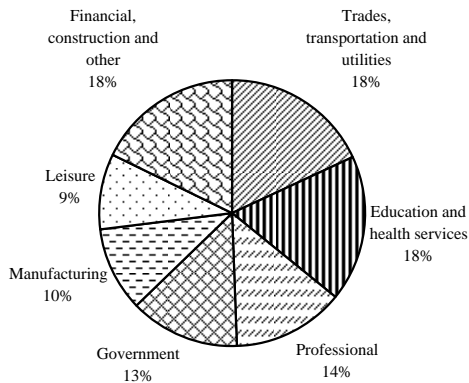
Nonagricultural Employment By Sector and Industry In Massachusetts And The United States For 2006

(Amounts in thousands)

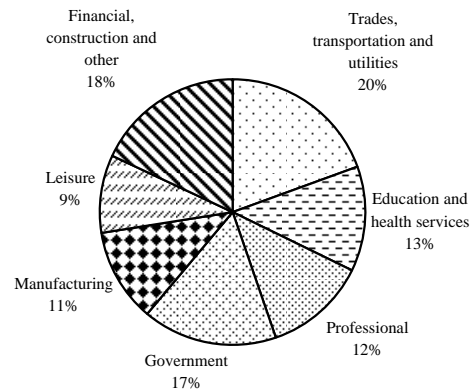
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	306	9.5%	14,251	10.5%	90.2%
Non-manufacturing:					
Construction	142	4.4%	7,505	5.5%	79.6%
Trade, Transportation and Utilities Employment	568	17.6%	26,050	19.3%	91.5%
Education and health services	597	18.5%	17,708	13.1%	141.4%
Financial activities	225	7.0%	8,320	6.2%	113.6%
Information activities	88	2.7%	3,060	2.3%	120.0%
Leisure and hospitality services	294	9.1%	13,009	9.6%	94.7%
Professional and business services	469	14.6%	17,281	12.8%	113.9%
Natural Resources, Mining and Other	122	3.8%	6,079	4.5%	84.1%
Federal, state and local government	412	12.8%	21,967	16.2%	78.7%
Total Non-manufacturing	2,917	90.5%	120,979	89.5%	101.2%
Total	3,223	100.0%	135,230	100.0%	

Source: - Federal Reserve Bank of Boston - Bureau of Labor Statistics, August 2006 for June 2006.

**Massachusetts Employment by Industry
June 2006**



**United States Employment by Industry
June 2006**



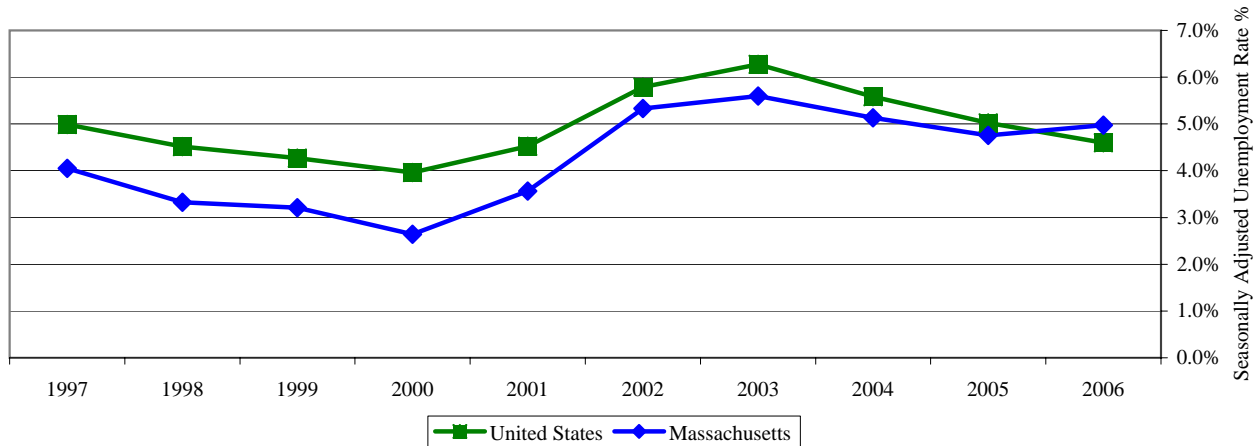
Ten-Year Schedule Of Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States

(Amounts in thousands)

Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2006	3,370	168	5.0%	151,321	6,957	4.6%	108.2%
2005	3,363	160	4.8%	149,243	7,493	5.0%	94.7%
2004	3,394	174	5.1%	147,386	8,228	5.6%	92.0%
2003	3,447	193	5.6%	147,003	9,228	6.3%	89.2%
2002	3,488	186	5.3%	144,802	8,379	5.8%	92.1%
2001	3,389	121	3.6%	143,361	6,480	4.5%	78.9%
2000	3,313	87	2.6%	142,591	5,651	4.0%	66.6%
1999	3,286	105	3.2%	139,329	5,951	4.3%	75.1%
1998	3,271	109	3.3%	137,455	6,212	4.5%	73.7%
1997	3,268	132	4.0%	136,211	6,799	5.0%	81.1%

Source: - Federal Bureau of Labor Statistics, August 2006. Amounts and rates previous from 2001 through 2004 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2004. The differential between average labor force and nonagricultural employment is agricultural employment. Seasonally adjusted.

**Massachusetts and United States Unemployment Rates
Seasonally Adjusted June 1997 - June 2006**



Largest Private Sector Massachusetts Employers
(Alphabetical Order)

<u>Employer</u>	<u>Headquarters</u>	<u>Product or Service</u>
Bay State Medical Center, Inc.	Springfield	Hospital
Beth Israel Deaconess Medical Center	Boston	Hospital
Big Y Foods, Inc.	Springfield	Supermarket
Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University
Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals
Friendly Ice Cream Corporation	Wilbraham	Restaurants
General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University
New England Medical Center	Boston	Hospital
President and Fellows of Harvard College	Boston	University
Raytheon Company	Lexington	Electronics / Defense
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital
State Street Corp.	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital
Tufts University	Medford	University
UMASS Memorial Medical Center, Inc.	Worcester	Hospital
Verizon New England, Inc.	Boston	Telecommunications

Sources: - Massachusetts Department of Unemployment Assistance- March 2006 survey. In addition, Bank of America NA, Federated Retail Holdings, Inc, Home Depot USA, Inc., International Business Machines Corporation, S&S Credit Company, Inc., United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York.

Standard and Poors 500 Companies Headquartered in Massachusetts

<u>Company</u>	<u>Stock Symbol</u>	<u>Headquarters</u>	<u>Product or Service</u>	<u>Worldwide Employees</u>	<u>Latest Audited Revenues (\$millions)</u>	<u>Fortune 500 Rank</u>	
						<u>2006</u>	<u>2005</u>
Raytheon Company (New)	RTN	Lexington	Aerospace & Defense	79,900	\$ 21,894	97	103
Staples Inc.	SPLS	Framingham	Specialty Stores	68,533	16,079	137	146
TJX Companies Inc.	TJX	Framingham	Apparel Retail	119,000	16,058	138	103
EMC Corporation	EMC	Hopkinton	Computer Storage & Peripherals	26,500	9,664	249	266
State Street Corp.	STT	Boston	Diversified Financial Services	20,965	7,496	307	341
Boston Scientific	BSX	Natick	Health Care Equipment	19,800	6,283	346	352
Thermo Electron	TMO	Norwood	Semiconductors	11,500	2,633	-	-
Analog Devices	ADI	Waltham	Electronic Equipment & Instruments	8,800	2,430	-	-
Biogen IDEC Inc.	BIIB	Cambridge	Electronic Equipment & Instruments	3,340	2,423	-	-
PerkinElmer, Inc.	PKI	Wellesley	Biotechnology	8,000	1,474	-	-
Waters Corporation	WAT	Milford	Electronic Equipment & Instruments	4,503	1,158	-	-
Teradyne, Inc.	TER	Boston	Semiconductor Equipment	4,000	1,075	-	-
Millipore Corp.	MIL	Billerica	Electronic Equipment & Instruments	4,800	991	-	-
Parametric Technology	PMTC	Needham	Application Software	3,751	721	-	-

Sources: - Standard and Poors (from Standardandpoors.com) , the Boston Globe (May 16,2006 section F) and Fortune Magazine (from fortune.com).
 Massachusetts Mutual Life Insurance, Liberty Mutual Insurance Group, BJ's Wholesale Club are part of the Fortune 500, but are not part of the Standard & Poors 500. Reebok International was dropped from the Standard and Poors 500 on January 31, 2006.

**Full Time Equivalent Employees
By Function / Program
Last Ten Years**

Functions / Programs	2006	2005	2004	2003	2002
General Government.....	6,177	5,750	5,449	5,644	5,724
Judiciary.....	7,635	7,467	7,099	7,198	7,393
Environmental and recreation.....	2,686	2,744	2,612	2,814	2,949
Health and human services.....	22,935	22,855	22,229	23,087	23,269
Transportation and construction.....	2,708	2,759	1,794	1,843	1,820
Education.....	651	587	569	579	545
Public safety and homeland security.....	13,517	13,152	13,578	13,964	14,446
Economic development.....	2,264	2,299	2,300	2,322	2,382
Higher Education:					
University of Massachusetts.....	13,360	12,807	12,356	12,513	11,821
State colleges.....	4,301	4,224	3,914	3,957	3,812
Community colleges.....	4,603	4,523	4,219	4,408	4,340
Totals.....	80,837	79,167	76,120	78,328	78,501
Percentage Change	2%	4%	-3%	0%	-6%

Source: Office of the State Comptroller, FY 2001 to FY 2006, University of Massachusetts reported by the University.

"Education" includes the Board of Higher Education. For FY2005, Transportation and Construction includes the Registry of Motor Vehicles (formerly Public Safety.) Measurement date is the closest pay period end to June 30. FTE's are rounded. Higher education FTE's exclude part time contractors paid from campus - based systems.

2001	2000	1999	1998	1997	Change - 2006 from 1997
6,261	6,286	6,034	5,853	5,758	7%
8,159	8,054	7,836	7,313	6,790	12%
3,161	3,147	3,100	3,001	2,986	-10%
25,143	25,215	24,899	24,817	24,818	-8%
2,094	2,171	2,223	2,283	2,279	19%
530	516	491	471	442	47%
14,752	14,430	13,703	11,784	10,835	25%
2,468	2,504	2,506	2,504	2,583	-12%
12,572	12,010	12,467	13,996	13,687	-2%
4,026	3,981	3,914	3,883	3,824	12%
4,720	4,580	4,470	4,268	4,102	12%
83,886	82,894	81,642	80,172	78,104	3%
1%	2%	2%	3%	1%	

**Massachusetts Road Inventory
Calendar Year End, Lane Miles by Type
Last Ten Calendar Years**

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81.0%	18.9%
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%
2002	3,186	13,513	10,950	42,654	70,295	0.21%	68.7%	31.3%
2001	3,186	13,478	10,946	42,539	70,149	0.28%	68.7%	31.3%
2000	3,184	13,498	10,936	42,339	69,956	0.18%	68.7%	31.3%
1999	3,182	13,509	10,935	42,207	69,833	0.20%	68.7%	31.3%
1998	3,173	13,536	10,935	42,049	69,694	0.75%	68.8%	31.2%
1997	3,173	13,515	10,929	41,560	69,178	1.02%	68.7%	31.3%
1996	3,172	13,495	10,941	40,874	68,481	-	68.7%	31.3%

Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development Annual Road Inventory Reports. Exclusive of shoulders. 2003 was not updated from 2002. 2005's annual survey is to expected to be released in January 2006. 1995 and before is unavailable, but is not expected to be materially different from 1996 and forward.

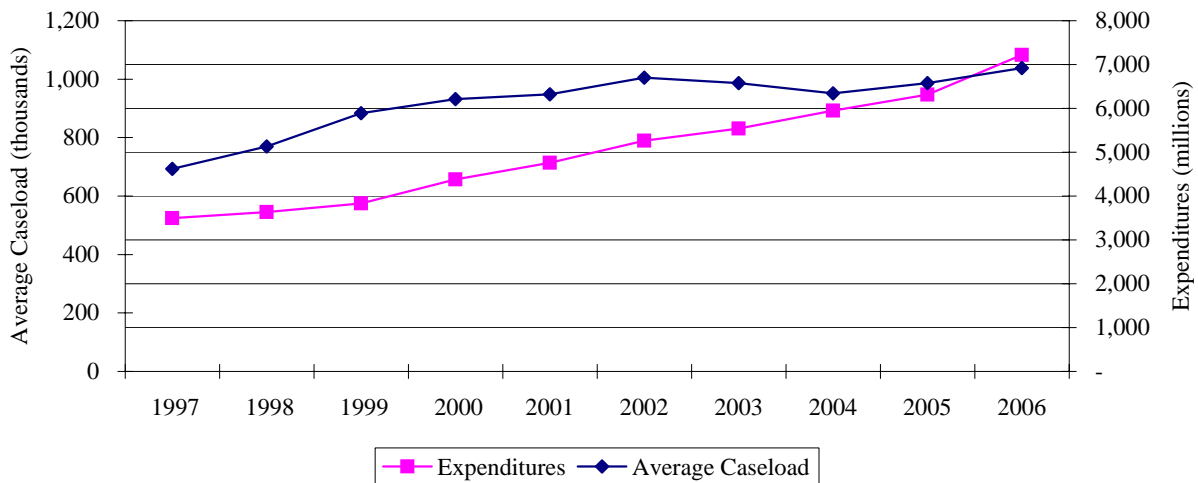
Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2006	1,038	\$ 7,219	\$ 6,955
2005	986	6,312	6,402
2004	952	5,946	6,246
2003	987	5,542	5,617
2002	1,005	5,261	5,236
2001	948	4,761	5,020
2000	931	4,381	4,703
1999	883	3,829	4,336
1998	770	3,638	4,728
1997	693	3,497	5,050

Source: Executive Office for Health and Human Services.

Average Annual Caseload and Medicaid Expenditures 1997 - 2006



**Massachusetts Real Property Owned and Leased
Annual Inventory, Acreage, Improvements and Square Footage
Last Ten Years**

Functions / Programs	Survey Year 2006	Survey Year 2005	Survey Year 2004	Survey Year 2003	Survey Year 2002
General Government:					
Total Acreage	2,050	2,772	2,486	3,137	3,750
Number of Improvements	232	300	306	263	352
Gross square footage	6,745,962	8,429,827	8,315,791	8,428,905	10,124,543
Judiciary:					
Total Acreage	118	117	114	113	113
Number of Improvements	68	68	68	68	68
Gross square footage	4,351,128	4,884,206	4,884,206	4,952,821	4,887,321
Environmental and recreation:					
Total Acreage	569,282	558,347	552,857	539,437	511,732
Number of Improvements	2,159	2,168	1,916	1,903	2,042
Gross square footage	7,057,840	7,039,038	6,677,076	6,601,985	6,965,507
Economic development:					
Total Acreage	2	2	2	2	2
Number of Improvements	6	6	6	6	6
Gross square footage	77,642	76,812	76,812	76,812	76,812
Health and Human Services:					
Total Acreage	7,615	7,311	7,284	7,561	7,784
Number of Improvements	1,001	992	997	1,068	1,110
Gross square footage	12,333,804	12,251,382	12,493,551	13,339,508	13,669,358
Transportation and construction:					
Total Acreage	7,217	7,175	7,513	7,736	7,484
Number of Improvements	910	908	909	909	965
Gross square footage	4,845,365	4,812,965	4,821,599	4,823,279	4,954,627
Education:					
Total Acreage	233	233	234	233	-
Number of Improvements	43	43	44	43	-
Gross square footage	272,352	272,352	272,352	272,352	-
Public safety and homeland security:					
Total Acreage	17,530	17,515	17,454	17,485	17,391
Number of Improvements	1,026	1,038	1,037	1,069	1,113
Gross square footage	12,885,742	13,137,177	13,131,414	13,563,676	13,630,934
Higher Education:					
Total Acreage	7,089	7,138	7,163	7,169	7,353
Number of Improvements	933	941	939	935	990
Gross square footage	30,870,743	30,997,427	30,728,820	30,267,370	30,975,993
Totals for Commonwealth (exclusive of Component Units):					
Total Acreage	611,136	600,609	595,107	582,873	555,609
Number of Improvements	6,378	6,464	6,222	6,264	6,646
Gross square footage	79,440,578	81,901,186	81,401,621	82,326,708	85,285,095
Percentage Change for Commonwealth:					
Acreage	1.8%	0.9%	2.1%	4.9%	3.3%
Improvements	-1.3%	3.9%	-0.7%	-5.7%	22.1%
Gross square footage	-3.0%	0.6%	-1.1%	-3.5%	12.5%

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due to the absorption of county properties.

Survey Year 2001	Survey Year 2000	Survey Year 1999	Survey Year 1998	Survey Year 1997
4,142	3,476	3,289	3,860	3,874
469	395	387	459	458
12,346,526	8,802,821	7,998,555	10,295,460	10,226,361
113	109	76	69	40
62	57	57	38	35
4,582,299	4,082,355	4,178,621	2,579,591	2,366,581
494,093	482,854	472,313	455,770	449,005
1,727	1,713	1,723	1,728	1,719
7,101,935	6,933,956	6,937,756	6,932,602	6,905,230
2	1	1	1	1
5	6	6	6	6
47,500	57,500	57,500	57,500	57,500
7,779	8,028	8,017	7,995	8,286
854	877	877	872	872
12,446,222	12,839,042	12,839,042	12,780,974	12,785,089
7,562	7,603	7,630	7,531	7,503
1,019	1,026	1,026	1,026	1,024
4,989,788	5,149,089	5,149,089	5,148,489	5,148,489
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
17,366	17,371	17,171	17,143	17,305
584	598	579	655	640
7,876,300	11,165,654	7,811,970	8,108,448	7,807,787
6,929	6,920	6,871	6,855	6,805
721	759	754	754	747
26,420,404	28,923,271	28,881,383	28,881,383	28,592,524
537,985	526,363	515,368	499,226	492,820
5,441	5,431	5,409	5,538	5,501
75,810,974	77,953,688	73,853,916	74,784,447	73,889,561
2.2%	2.1%	3.2%	1.3%	5.2%
0.2%	0.4%	-2.3%	0.7%	0.6%
-2.7%	5.6%	-1.2%	1.2%	1.9%

Massachusetts Public Higher Education
Enrollment and Degrees Conferred
Last Nine Academic Years (Enrollment), Last Ten Years (Degrees)

Academic Year	Fall 2005	Fall 2004	Fall 2003	Fall 2002	Fall 2001
<u>ENROLLMENT, TUITION AND FEES</u>					
<u>University System</u>					
Undergraduate (FTE).....	36,770	37,598	37,904	37,762	37,961
Graduate (FTE).....	8,072	8,494	8,494	8,334	8,223
System Enrollment.....	44,842	46,093	46,398	46,097	46,184
Tuition and Fees (per student)					
Resident.....	\$ 8,473	\$ 6,802	\$ 5,798	\$ 4,693	\$ 4,698
<u>State College System</u>					
Undergraduate (FTE).....	29,481	29,051	29,238	26,489	623
Graduate (FTE).....	8,761	8,658	8,360	7,296	7,138
System Enrollment.....	38,242	37,709	37,598	33,785	7,761
Tuition and Fees (per student)					
Resident.....	\$ 5,100	\$ 4,591	\$ 3,743	\$ 2,954	\$ 2,962
<u>Community College System</u>					
Undergraduate (FTE).....	50,784	50,972	51,067	49,483	46,756
Tuition and Fees (per student).....					
Resident.....	\$ 3,380	\$ 3,266	\$ 2,833	\$ 2,273	\$ 2,153
	2006	2005	2004	2003	2002
<u>DEGREES CONFERRED</u>					
<u>University System</u>					
Certificates (MD's).....	93	104	98	97	89
Associate's.....	111	95	119	106	111
Bachelors.....	8,269	8,205	7,764	7,645	7,525
Masters.....	2,705	2,588	2,467	2,311	2,165
Doctoral.....	424	389	407	322	358
Total Degrees.....	11,602	11,381	10,855	10,481	10,248
<u>State College System</u>					
Certificates.....	N/A	540	490	535	313
Bachelors.....	5,885	5,549	5,525	5,545	5,096
Masters.....	2,190	2,048	2,157	2,053	1,881
Total Degrees.....	8,075	8,137	8,172	8,133	7,290
<u>Community College System</u>					
Certificates.....	2,100	2,278	2,281	1,947	1,930
Total Degrees.....	2,100	2,278	2,281	1,947	1,930
Total All Systems - Degrees.....	21,777	21,796	21,308	20,561	19,468

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

Fall 2000	Fall 1999	Fall 1998	Fall 1997	Change - 2005 from 1997	
37,101	37,093	35,759	35,605	5.6%	
<u>8,139</u>	<u>8,405</u>	<u>8,562</u>	<u>8,490</u>	<u>0.1%</u>	
45,240	45,498	44,321	44,095	4.5%	
\$ 4,706	\$ 4,727	\$ 4,828	\$ 4,828	40.9%	
26,791	27,058	28,157	28,329	2.5%	
<u>3,860</u>	<u>3,415</u>	<u>3,516</u>	<u>2,934</u>	<u>195.1%</u>	
30,651	30,473	31,672	31,264	20.6%	
\$ 2,984	\$ 3,103	\$ 3,192	\$ 3,192	43.8%	
<u>44,098</u>	<u>43,094</u>	<u>41,490</u>	<u>38,441</u>	<u>32.6%</u>	
\$ 2,182	\$ 2,297	\$ 2,427	\$ 2,427	34.6%	Change - 2006 from
2001	2000	1999	1998	1997	1997
94	101	95	108	96	N/A
110	124	109	151	153	-27.5%
7,489	7,371	6,860	7,353	7,128	16.0%
2,332	2,368	2,180	2,277	2,358	14.7%
<u>337</u>	<u>349</u>	<u>333</u>	<u>366</u>	<u>357</u>	<u>18.8%</u>
10,362	10,313	9,577	10,255	10,092	15.0%
251	356	302	278	274	N/A
5,166	5,374	5,298	5,285	5,175	13.7%
<u>1,659</u>	<u>1,593</u>	<u>1,529</u>	<u>1,430</u>	<u>1,181</u>	<u>85.4%</u>
7,076	7,323	7,129	6,993	6,630	25.4%
1,941	1,764	1,819	1,841	1,635	28.4%
<u>1,941</u>	<u>1,764</u>	<u>1,819</u>	<u>1,841</u>	<u>1,635</u>	<u>28.4%</u>
19,379	19,400	18,525	19,089	18,357	18.6%

Calculation of Transfers: Stabilization Fund

June 30, 2006
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by Chapter 106 of the Acts of 2005 which superceded certain parts of the Section 5c . It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

Part 1: Undesignated fund balance / (deficit) in the operating Funds, unless specifically exempted by General Laws:

General Fund	\$ 1,537,449
Highway Fund	(1,083,108)
Workforce Training Fund	(7,243)
Massachusetts Tourism Fund	(141)
Children's and Seniors' Health Care Assistance Fund	-
<hr/>	
Consolidated undesignated fund balance / (deficit) in the operating Funds.....	446,957
Less: Amount carried forward to fiscal year 2006 - 0.5% of FY2005 total tax revenue per Schedule A.....	92,967
Less: Amount to be deposited in the Stabilization Fund -0.5% of FY2006 total tax revenue per Schedule A....	92,967
<hr/>	
Net consolidated net surplus / (deficit) to be deposited into the Stabilization Fund per Chapter 26 of the Acts of 2003, Section 164	\$ 261,023

Part 2: Transfers to the Stabilization Fund:

From the General Fund	\$ 261,023
From the Highway Fund	-
From the Workforce Training Fund	-
From the Federal Medicaid Assistance Percentage Escrow Fund	-
From the Massachusetts Tourism Fund	-
From the Children's and Seniors' Health Care Assistance Fund	-
<hr/>	
Total transfers to the Stabilization Fund	\$ 261,023

Part 3: Status of consolidated net surplus after Stabilization Fund transfers - Undesignated Fund Balance / (deficit):

General Fund	\$ 1,183,459
Highway Fund	(1,083,108)
Workforce Training Fund	(7,243)
Federal Medicaid Assistance Percentage Escrow Fund	-
Massachusetts Tourism Fund	(141)
Children's and Seniors' Health Care Assistance Fund	-
<hr/>	
Consolidated net surplus after the annual transfer.....	\$ 92,967

Part 4: Transfer to Transitional Escrow Fund:

Excess to be transferred from the remaining consolidated net surplus.....	<hr/> \$ - <hr/>
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Part 5: Fiscal 2006 Stabilization Fund activity:

Reserved for Stabilization - Balance as of June 30, 2006	\$ 1,728,355
Consolidated net surplus pursuant to Part 2, above.....	261,023
Plus: Interest income, certain tax revenues and recoveries	72,319
Plus: 0.5% of FY2006 total tax revenue per Part 1, above	92,967
<hr/>	
Subtotal	2,154,664

Add: Year end transfer from the General Fund.....	20,000
Less: Transfers per Ch. 163 Sec. 58 from the General Fund.....	(20,000)
<hr/>	
Subtotal, transfers and appropriations from the Stabilization Fund.....	-

Net transfers and appropriations from the Stabilization Fund during FY 2006.....	-
<hr/>	
Reserved for Stabilization Fund - balance as of June 30, 2006	\$ 2,154,664

Calculation of Transfers: Tax Reduction Fund

June 30, 2006
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers, to 15% of budgeted revenues and other financial resources:

Undesignated fund balance in the Stabilization Fund.....	\$ 2,154,664
Allowable Stabilization Fund balance (per Schedule B).....	<u>3,945,820</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u>\$ -</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance.....	\$ 2,154,664
Transfer to Tax Reduction Fund.....	<u>-</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u>\$ 2,154,664</u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund balance.....	\$ -
Transfers from Stabilization Fund.....	<u>-</u>
Tax Reduction Fund balance after transfers.....	<u>\$ -</u>

MASSACHUSETTS GENERAL INFORMATION

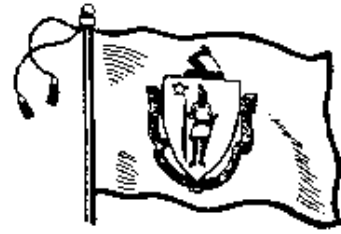
Admitted to Union (6th State): 1788
Population: 6,398,743

Capital: Boston
Nickname: Bay State

The State Seal



The State Flag



The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

The State Flower



The Mayflower

The State Fish



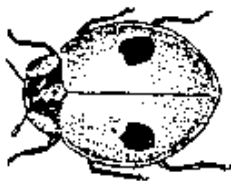
The Cod, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

The State Bird



The Black Capped Chickadee

The State Insect



The Lady Bug

The State Tree



The American Elm was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

The State Dog



The Boston Terrier, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

Beverage: Cranberry Juice
Dessert: Boston Cream Pie

Muffin: The Corn Muffin
Cookie: Chocolate Chip

Horse: The Morgan Horse
Bean: Navy Bean



All photography courtesy of Docema, LLC

The Great Boston Fire of 1872

“The Great Boston Fire” began on the night of Saturday November 9th 1872, in the finest business quarter of the city. It was not brought under control until late afternoon the following day, and was by far the most disastrous of several great fires that Boston has suffered. Oliver Wendell Holmes watched the fire from his home on Beacon Hill and the glow in the sky was noted in ship’s logs off the coast of Maine.

The fire destroyed more than 65 acres of the most valuable business property of the city. The value of all property destroyed was \$75,000,000 [about \$3.5 billion current dollars].



Boston credited its deliverance to John S. Damrell, its courageous Fire Chief, who directed the defense that saved the city’s densely-populated neighborhoods from Chicago’s fate, and would forever change firefighting history.

John Damrell later became Boston’s Inspector of Buildings during the 1880’s. Damrell brought a new level of professionalism and organization to firefighting and was instrumental in creating modern building codes at the national level. His vision, energy, skill, and dedication over the next thirty years would help spare 20th century urban America, and save countless thousands, from the flames that terrorized the times.

The documentary film “Damrell’s Fire” produced by Docema, features rare photographs and color lithographs of 19th century Boston. Additionally, the “Damrell’s Fire” website (www.damrellsfire.com), includes additional research and educational resources for scholars, students, and history buffs.



This 1873 map highlights the proposed changes for several downtown streets in the Burnt District after the Great Fire of 1872. In the wake of the fire city planners saw an opportunity to widen several of Boston’s downtown streets before the commercial district was rebuilt. After much debate and compromise with land owners these changes were implemented and became the layout of downtown Boston as it is today.



The Worcester Art Museum, which opened to the public in 1898, is world-renowned for its 35,000-piece collection of paintings, sculpture, decorative arts, photography, prints, drawings and new media. The works span 5,000 years of art and culture, ranging from ancient Roman mosaics to Colonial silver; Impressionist paintings and contemporary art. Dedicated to the promotion of art and art education, the Museum offers a year-round studio art and art appreciation program that enrolls over 6,000 adult and youth students each year. Public tours are offered Saturdays at 11AM and Sundays at 1 PM, September through May. You can enjoy a delectable lunch in the Museum Café, and browse their Shop for unique gifts and mementos.

The Worcester Art Museum's web site has an online gallery that is just a small representation their extensive collection. It features art and descriptive text from their Selected Works catalog, including American, Ancient, Asian, European and Precolumbian art samples.

*To view the on-line collections:
<http://www.worcesterart.org/Collection>*